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## Introduction\*

Regional policy would appear to have been less successful than policy-makers would like to think. Despite an onslaught of policy measures from the 1960s onwards, spatial inequalities in Europe have proved obstinate, and thus the well-known diagnosis that regional policy is facing a "crossroads"<sup>1</sup> could seem to be an elegant understatement.

Currently two policy paradigms co-exist. Traditional central-government programmes that single out particular distressed areas for preferential treatment through subsidies or infrastructure are still very much in evidence, but especially since the 1980s 'bottom-up initiatives' from the regional level have become increasingly prominent, involving public-private partnerships and a wide range of advisory services. Within academia the division between traditional and new-model regional policy has given rise to two distinct analytical paradigms, each focusing on particular features of its associated policy paradigm but equally ill-suited to deal with initiatives rooted in 'the other' tradition. This rigid division of academic labour of course obstructs comparative studies of different policy measures and in effect makes it impossible to provide a systematic account for the origins, nature and consequences of the ongoing shift in policy paradigms. Therefore attempts to undertake analyses along these lines will require a new analytical framework, and in order to ensure the coherence of such a framework careful consideration must be given to the basic foundations upon which it is constructed. The current paper is devoted to this particular task.

The *aim* is to establish some theoretical prerequisites for a subsequent elaboration of a conceptual framework for the study of regional policy. In order to be able to, at a later stage, develop a model of the policy process and the organisations and relationships involved, three key problems in social science of crucial importance to the policy area in general and the transition towards new-model regional policies in particular will be examined.

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\* The first draft of this paper was written during a six-month spell in Scotland in 1995. Thanks are due to the Faculty of Arts, the Department of Languages and International Culture Studies, and the European Research Unit, all at Aalborg University, for being supportive, financially and otherwise. The Department of Economics at Strathclyde University, Glasgow, again generously provided facilities and a stimulating environment in which to pursue my research interests. The present paper benefitted from discussions with and comments from Chris Moore, Kim Swales, and John Scouller, although the author remains responsible for the text in its present form.

1 Albrechts *et al.* 1989.

As will become apparent, the general approach informing the text can be termed institutional, and the paper takes as its point of departure the proposition that

a fundamental characteristic of any regional policy measure is that a public body attempts to influence the economic activities of private actors along spatial lines.

This places the study of regional policy in a broader thematic context that involves at least three sets of issues of a more general nature, namely

- 1) the relationship between public and private organizations,
- 2) approaches to the analysis of public policy-making, and
- 3) the means by which public bodies can influence private economic actors.

One could hope that a critical examination of the associated bodies of literature will not only prove fruitful in the process of developing an alternative analytic framework for the study of regional policy, but also, perhaps, be of relevance in other fields of inquiry in which the relationship between public bodies and private firms is a central feature.

The following pages set the scene by painting a more detailed picture of the current state of affairs with regard to regional policy and its analysis, and provide an outline of the structure of the paper.

### *At the Crossroads*

Over the last decades spatial policy in Western Europe has changed in two important respects.

It is evident that the complexity of the *organizational setting* has increased dramatically.<sup>2</sup> The concept and practice of regional policy had originally been developed on the national level by central governments in order to promote a more equitable interregional distribution of economic activity, but from the 1980s onwards the predominance of national-level policies came under threat. From above the structural funds of the European Community put international redistribution on the agenda and imposed constraints on member-state policies. From below the growth of economic development activities of regions and local authorities created a new field of interregional competition: sub-national institution-building. And at the national level itself the pressures of an increasingly liberal ideological climate and the pervasiveness of structural change in the manufacturing industries combined to make large-scale spatial redistribution much

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2 For overviews of the development of regional policy in Western Europe, see Stöhr 1989, Albrechts & Swyngedouw 1989, and Bachtler 1993.

more difficult to sustain, both politically and financially.

The *nature of public intervention* has, however, also been transformed since the 1970s. Regional policy in its traditional form was organized on the national level by central government, consisted of a relatively small number of policy programmes, relied primarily on financial incentives supplemented by infrastructure provision and direct regulation, and operated mainly in a reactive and non-selective way. The traditional approach in other words involved public bodies using 'hard resources' to change the economic and institutional environment in which the private sector operated, but it still effectively left the initiative in individual investment projects with individual firms. While the structural funds of the European Community to a large extent have employed methods similar to those already used by its member states, the policy programmes developed on the sub-national level involved rather different kinds of public intervention. The so-called bottom-up initiatives relied heavily on advisory services and the creation of public-private partnerships on the regional level, and in this type of new-model regional policy 'soft resources' were often employed in a pro-active and selective manner. Public bodies did in other words take initiatives designed to influence the strategic decision-making in particular segments of private firms and thereby advance not just the quantity of investment within the region, but also its quality with regard to e.g. organization, production processes and positioning on the market.

While the situation has undeniably become much more complex, it is also clear that the widespread *perception* of a bewildering complexity of regional problems and policies also would appear to owe a great deal to difficulties of a more analytical nature. In short, I would argue that the visibility in and around the current "crossroads" has been more than a little impaired by the absence of adequate conceptual tools, capable of making sense of both policy regimes and hence accounting for the general relationship between the two and permitting an analysis of the historical transition from traditional to new-model types of regional policy.<sup>3</sup> In order to fully understand the origins of the presents problems of orientation, it is in other words necessary to take a closer look at the dominant paradigms in the academic study of regional policy.

Analyses of the traditional regime of central government regional policy have primarily been undertaken in order to establish the effects of certain policies on the regional economies. As both the traditional policies and the investment activities promoted lend themselves to quantification - in monies or employees - it is hardly surprising that economists and quantitative methods have played a prominent role in the study of traditional regional policies. While sophisticated techniques were developed in

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3 For an extended version of the following argument, see Halkier 1996.

order to cope with the problems involved in estimating the economic impact of particular measures,<sup>4</sup> the relatively narrow range of standard policy programmes also meant that the differences between various policy measures could be determined by means of fairly simple conceptual tools, conveniently summed up by dichotomies such as 'strong or weak' regional policy regimes and often explicitly linked to more general approaches to economic policy such as 'laissez-faire versus planning' or 'liberalism versus interventionism'.<sup>5</sup>

On this background it was to be expected that the shift towards new types of regional intervention from the 1980s would be more than a little difficult to come terms with from a traditional perspective, simply because the new-model measures were difficult to characterize by means of the existing analytic categories. Add to this the historical circumstances in which the transition took place - major cut-backs in national-level policies across Europe and a liberal ideological climate assumed to be inconsistent with strong regional policies - and it would indeed have been surprising if a certain measure of skepticism towards the bottom-up array of small-scale advisory services had not been in evidence in the early years.

Eventually, the analysis of new-model policies in effect emerged as a separate discipline, employing a different set of methodologies.<sup>6</sup> Given the very heterogeneous nature of bottom-up initiatives in regional development, (semi-)qualitative methods - e.g. case studies or surveys via questionnaires - formed the foundation of much research in the area, and the study of regional policy therefore began to draw increasingly on the micro-oriented techniques of management and organizational sciences.<sup>7</sup> Again much energy has been devoted to describing individual initiatives and appraising their impact on private firms, and although specific institutional features has necessarily been more prominent than in studies of traditional central-government policies, only limited progress has been made towards establishing a more general conceptual framework that would allow a systematic analysis of the differences and similarities between the various genres of new-model initiatives.

The present situation with regard to the academic study of regional policy can in

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4 For examples of this, see Moore & Rhodes 1973, Ashcroft 1980, Diamond & Spence 1983, Folmer 1986, Swales 1989, and Wren 1990.

5 See e.g. Grant 1982, Ferguson 1988, Danson *et al.* 1990.

6 It is interesting to note that nonetheless a certain cohabitation took place in the columns of e.g. *Regional Studies*, suggesting that functional and institutional interests in praxis have taken priority over methodological differences.

7 The journal *Entrepreneurship & Regional Development* is a good illustration of the approach to the study of new-model regional policy.



other words be summed up as follows. The transition from one policy paradigm to another has been replicated as two distinct lines of academic enquiry, both primarily interested in establishing the economic effects of individual policy programmes, but polarized in terms of methodologies between aggregate quantitative studies and qualitative case studies and surveys. There are undoubtedly excellent historical explanations for this pattern - the institutional inertia of particular academic disciplines and the availability of external funds for policy evaluation to name the most obvious - but from a broader perspective this analytic polarization would still seem to be rather unhelpful. *Firstly*, comparison between different types of policy measures is hampered by the absence of a uniform conceptual framework that can account in a systematic fashion for the basic features of both policy regimes. *Secondly*, the focus on economic impact means that significant aspects of policy-making such as methods of implementation and the institutional environment are often given only cursory attention. *Thirdly*, simplistic dichotomies of the market-versus-intervention type inherited from analyses of traditional policy regimes are also part and parcel of political discourse, and hence they may eventually reveal more about conflicting ideologies and symbolic gestures than about the nature of the actual interaction between the public and the private sector. And *fourthly*, the study of the politics of regional policy is likely to remain neglected or at best undertaken in splendid isolation from the nature of the actual policy programmes, simply because the intrinsic and intricate distinctions between the different policy measures cannot be spelt out clearly.<sup>8</sup> Or to put it another way: by pursuing a well-defined set of objectives of impact evaluation, the dominant traditions in the analysis of regional policy have produced a situation where the existing conceptual frameworks are perhaps suitable for their original tasks, but where they can certainly be found wanting if regional policy were to be tackled from other perspectives.

### *Mapping a Road*

This conclusion has been reached in connection with an ongoing research project on new-model regional policy and the politics of regional development, revolving around an in-depth empirical study of the Scottish Development Agency set within the wider context of UK regional and industrial policy.<sup>9</sup> At an early stage it became clear that a prerequisite for pursuing this line of inquiry would be the construction of an alternative analytical

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8 This comment only stresses the obvious *limits* upon the analysis of the political aspects of the policy process imposed by a murky and/or simplistic view of the nature of the policy programmes, and does not imply adherence to a rationalistic view of the policy process in which the actors involved have perfect knowledge of the available options and their consequences, cf the discussion below.

9 Earlier publications stemming from this work are Halkier 1992 and 1994.



framework.<sup>10</sup> What was needed was a coherent set of concepts developed on the basis of a particular methodology; a set of concepts eschewing reductionist simplicities and being sufficiently multi-dimensional to account for the complexities of empirical analysis, but still capable of laying bare significant differences between various types of policies by highlighting central features of material consequence. Needless to say, much inspiration with regard to specific aspects of regional policy can be found in existing contributions, including work undertaken outwith the two dominant traditions.<sup>11</sup> But before embarking on the more detailed work of developing appropriate concepts to be employed in empirical analysis it will, however, be worthwhile to go 'back to basics' and address a number of fundamental questions in order to ensure the coherence of the framework. The purpose of this paper is therefore to develop a foundation for the development of an analytic framework for the study of changing regional policy paradigms and the associated political conflicts.

On the basis of earlier work in this area, three fields of theoretical inquiry have been selected. The *first section* introduces the theoretical foundations of the research project by sketching the key assumptions about the role of institutions, organizations and agency in general, and in the study of politics and economic development in particular. It should be stressed that the purpose of this part of the text is to make it easier to follow the reasoning in the later and more specific sections rather than provide an extensive review of these heavily contested issues. Its format therefore approaches that of a 'position statement' based on a discussion of central contributions on institutions (March & Olsen, North), institutional economics (Hodgson, North, Lundvall) and strategic-relational state theory (Jessop). Leaving the lofty spheres of grand theory behind, the *second section* of the paper discuss different approaches to the study of public policy-making in order to review their research strategies and methodological assumptions, and on the basis thereof a modified framework consistent with central institutionalist concerns will be proposed. The *third section* examines a critical element in the policy process, namely the means by which public-sector bodies try to influence private firms and individuals. The study of policy instruments is one of the least developed areas within policy studies, but on the basis of a discussion of different forms of power, the section will explore how various types of policy instruments may affect the degree to which public goals are likely to prevail over private interests. On the basis of this, the general contours of an analytical framework that will allow a broader perspective on regional policy can be delineated, and the *concluding section* proposes a preliminary model of the policy-making process and

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10 For earlier versions of this framework, see Halkier 1991 and 1992.

11 Cf the brief outline in Halkier 1992, and the extensive discussion in Halkier 1996.

the organisations and relationships involved - but, alas, leaves the detailed elaboration of individual variables to be completed elsewhere.<sup>12</sup>

The overall format of the paper is thus perhaps a somewhat curious one: its ultimate purpose is external - to provide the foundation for another paper - and its internal structure is that of literature reviews of three separate, although of course related, areas. It is nonetheless hoped that the attempt to establish an institutionalist perspective on the relationship between public and private organizations in the policy process will not only provide coherence within the text but also make it relevant to a wider audience with research interests in other areas of public policy.

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12 See Halkier 1996.

## 1. State, Economy and Space - Institutional Perspectives

The study of regional policy is essentially about a particular form of interaction between public bodies and private sector firms, and as the relationship between public and private has been one of the central problems in 20th century social science - and the major ideological dividing line in Western politics - no shortage of writings in terms of shelf kilometres can be claimed. What we are looking for is, however, a body of thought not just drawing attention to the obvious differences between these two elements of society, but also capable of analyzing them within a unitary framework and establishing their similarities and modes of interaction. As already mentioned, it is hoped that an institutionalist approach will be able to ensure this.

These days one may indeed be forgiven for a feeling of wariness when every other article and book within the social sciences starts out by proclaiming its adherence to 'the new institutionalism'. Apart from the, undoubtedly unintended, resemblance to the mandatory *homage* paid over the years to great founding fathers, such statements also suffer from the fact that the name has actually been used for separate theoretical traditions within economics, political science and other social science disciplines. Institutionalism is, in other words, a deceptively simple label that may indeed owe a good deal of its popularity to the comparative advantage of "relative obscurity":<sup>13</sup> everyone *think* they know what Keynesian economics or Marxian state theory is all about whereas neo-institutionalism can potentially function as a theoretical flag of convenience. A serious claim to a share in the current institutionalist surge must in other words be qualified through the specification of key concepts and their relationship to existing writings within the tradition.

In the following this will be done in three steps. First the general questions of institutions, structures and actors will be addressed, and on the basis of this some implications for the study of state and economy, two key areas in the study of regional policy, will be elaborated upon.

### *The New Institutionalism*

The current emphasis on institutions across the social sciences, often referred to as the 'new institutionalism',<sup>14</sup> undoubtedly owe a good deal to dissatisfaction with the major

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<sup>13</sup> Hodgson 1989 p 24.

<sup>14</sup> Although the epithet 'new' has hardly damaged the marketability of these trends, it does serve to  
(continued...)

theoretical trends of the 1960s and 1970s in general, and their assumptions about the relationship between structures and agency in particular. In political science the institutionalist crusade of March & Olsen started with a twin-pronged attack upon reductionism,<sup>15</sup> both within the behaviouralist tradition focusing upon individual political behaviour, and in the form of socio-centric state theory stressing the social origins of state activities rather than the importance of the latter in their own right. In economics the obvious target was the dominant neoclassical paradigm that effectively side-lines institutional issues through its methodological individualism and assumptions of rational and maximizing economic agents with complete information about the market.<sup>16</sup> Recent institutionalist writings have in other words not merely stressed that 'institutions matter', but also been concerned with the consequences of this claim for the relationship between social institutions and historical agents, and hence the following pages not only trace the thinking of prominent contributions from these traditions themselves but also draw upon other contributions to what has become known as the structure-agency debate.

The term 'new institutionalism' in political science has been closely associated with the writings of James March and Johan P. Olsen<sup>17</sup> who in their 1984 manifesto *Organizational Factors in Political Life* insisted that political institutions cannot be reduced to "arenas for contending social forces" because they are also

collections of standard operating procedures and structures that define and defend interests.<sup>18</sup>

From this perspective institutions are seen as "political actors in their own right", coherent and autonomous, and hence capable of moulding political preferences in society at large.<sup>19</sup>

Perhaps the combination of extensive polemic and a somewhat messianic tone explains the prominent status of this essay,<sup>20</sup> functioning as a central point of reference for both adherents and critics of the institutionalist approach. Although some of the more specific criticism would certainly seem to cast doubts about whether March & Olsen

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14 (...continued)

distinguish them from earlier institutionalist schools in both economics and political science, cf below.

15 March & Olsen 1984.

16 Hodgson (1989) performs a lively and thorough demolition job along these lines.

17 Notably March & Olsen 1984 and 1989. The relationship between the 'new' and earlier generations of institutionalists in political science seems to be more indirect than is the case in economics (Rhodes 1995).

18 March & Olsen 1984 p 738.

19 March & Olsen 1984 p 739.

20 See e.g. Bogason 1989, Thomsen 1994, Lane 1995, and, acerbic but acute, Rhodes 1995.

succeed in disentangling themselves from the reductionist traditions they lambast,<sup>21</sup> the crucial problem would seem to be that their key concepts remains highly ambiguous. Given their claim that organizational factors structure political institutions, a clarification of the relationship between these two sets of concepts would seem to be essential: Is this a two-way relationship or a case of one-way determination? And is it correct to assume a distinction between underlying abstract organizational features and specific historical interests, or are they operating on the same level of analysis? The absence of clear answers to basic questions like these could perhaps suggest that at the end of the day the research interest of March & Olsen is not so much the underlying structures themselves but rather the effects of particular political institutions on policy making and political behaviour.<sup>22</sup> This is of course a perfectly legitimate interest - and indeed a highly relevant concern from the perspective of the study of regional policy - but so far the work of March & Olsen has clearly *not* resulted in the development of a general approach to the analysis of social institutions that could potentially constitute an adequate starting point for a unitary conceptual framework capable of analyzing both political and economic phenomena. The new institutionalism in political science would seem to be mainly of potential relevance for studies in certain areas of politics, and hence the search for a broader perspective must be continued against other self-proclaimed institutionalist traditions.

A prominent figure in what has become known as the 'new institutional economics'<sup>23</sup> is the *Nobel laureate* Douglas C. North whose work has mainly concentrated on patterns of economic growth and performance.<sup>24</sup> According to North

institutions are the rules of a game in a society ..., they structure incentives in human exchange, whether political, social, or economic.<sup>25</sup>

Institutions may have been consciously created and formalized like a constitution, or they may exist as conventional codes of social behaviour, but either way they "define and limit

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21 Thomsen (1994) argues that strong reservations must remain about the implications of March & Olsen seeing institutional rules as limits to - and perhaps sole determinants of - political behaviour, seemingly replicating the problems of structuralism in being unable to explain social change because of the capacity of the structures to reproduce themselves.

22 March & Olsen has undeniably inspired a number of empirical studies along this line, e.g. Hall (1986) on economic policy, and Anderson (1992) and Moore (1994) on regional development strategies.

23 In contrast to the 'old institutionalism' that was the dominant trend in the US before the Keynesian revolution (see Petr 1984, cf Hodgson 1989 ch. 1).

24 For a brief critical introduction, see Villumsen 1994.

25 North 1991 p 3.



the set of choices"<sup>26</sup> available to social actors and thereby reduce the fundamental uncertainty involved in having to negotiate a complex environment by means of a limited capacity to process information.<sup>27</sup> In contrast to this, organizations - e.g. firms political parties, or churches - are defined as "groups of individuals bound by some common purpose",<sup>28</sup> and according to North the interaction between organizations and institutions is a crucial feature of social and historical development. Organizations are created to take advantage of opportunities that exist because of the institutional make-up of society, and at the same time organizations are "major agents of institutional change",<sup>29</sup> either through unforeseen consequences of attempts to accomplish their own objectives or, more seldom, in the form of conscious attempts to change the rules of the game.<sup>30</sup>

Although the North approach is not unproblematic, especially with regard to manner in which it has been applied to the analysis of economic development,<sup>31</sup> some important advantages in comparison with March & Olsen are certainly evident.<sup>32</sup> *Firstly*, the distinction between institutions and organizations establishes two different levels of analysis, related yet separate, and thereby makes it possible to distinguish between underlying rules and specific historical processes. *Secondly*, although individual and collective actors operate on a terrain structured by the incentives of existing institutions, they would still seem to have a reasonable degree of leeway left to choose their strategies, and thus while institutions do structure social exchange, they do not reduce actors to 'structural dopes'. And *thirdly*, the possibility of actors challenging existing institutions or creating new ones not only makes it possible to perceive the interaction between institutional structures and social agency as a two-way process, but also allows for institutional transformations occasionally to be the result of an intentional process. The most conspicuous *problem* in North's position concerns the general function of institutions where the potentially unequal distribution of incentives inherent in a particular institution tends to be overshadowed by the emphasis given to (the necessary and presumably

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26 North 1991 p 4.

27 North 1991 ch. 3.

28 North 1991 p 5.

29 North 1991 p 5.

30 North 1991 ch. 9.

31 Although North stresses that in principle institutions do not exist because they are optimal from the perspective of economic efficiency (North 1991 pp 7f), this assumption would still seem to be implicitly present in some of his specific analyses (Villumsen 1994).

32 The lack of internal coherence within 'new institutionalism' is underlined by the conceptual confusion: while structural properties are referred to as both institutions (North) and organizational features (March & Olsen), specific historical entities are referred to as both organizations (North) and institutions (March & Olsen).

uncontroversial) reduction of uncertainty. On an abstract level the conflictual nature of society is, in other words, being underplayed, and if the theory is to provide the underpinning for studies of political processes as well, this is highly unfortunate. Given the importance attached to institutional structuring of social incentives, this is, however, more a question of emphasis than an outright sin of omission, and hence North would still seem to provide a reasonable starting point for an institutional approach to the study of social phenomena, also outwith his original point of departure in economics and economic history.

### *Institutions, Structures and Agency*

The above review has revealed significant differences in terms of theoretical ambition and achievement, but it must be stressed that common ground amongst the institutionalist traditions can be found with regard to their *epistemological* position. Both March & Olsen and the new institutional economists accept the central claim of the realist tradition that the world exists independently of scientific theory, that specific social entities have specific properties, and that although

we have no direct access to these properties, they are both constraining and facilitating in relation to other properties and they are *indirectly* accessible to knowledge.<sup>33</sup>

Furthermore, both traditions attempt to construct positions that avoid both structural determinism and atomistic voluntarism.

These features are shared with other major contributions to the general discussion on structures and agency - Anthony Giddens' structuration theory<sup>34</sup> and the so-called 'strategic-relational' approach of Bob Jessop<sup>35</sup> - and given the relative weakness of the input from the new political institutionalism, especially the latter could potentially provide significant additional input. In the following the attempt to formulate the general foundation for an institutionalist approach to the study of regional policy is undertaken by defining and elaborating upon three key concepts that will be employed in the ensuing approach to the study of the interaction of political and economic entities, namely institutions, actors, and organizations.

*Institutions* are seen as sets of rules structuring social relations by defining options

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33 Jessop 1990 (*italics added*). For an extensive introduction to realist epistemology and social science, see Sayer 1984; cf Thomsen 1991a and Halkier 1990a.

34 Giddens' position has been repeatedly stated since the 1980s but *The Constitution of Society* (1984) remains a *locus classicus*.

35 Clearly stated in Jessop 1990 ch. 9.

and distributing the incentives associated with particular courses of action.<sup>36</sup> This means that institutions can be both limiting and enabling in that rules may be either prohibit, permit or require certain acts.<sup>37</sup> Institutions may exist either as informal cultural norms or as highly formalized written procedures embodied in particular organizations vested with the power to institute and enforce them,<sup>38</sup> but either way they are an inherently social phenomena that can only be reproduced through the continuous agency of the actors influenced by a particular set of rules.<sup>39</sup> While a general rationale for social institutions would seem to be the need for routinization in order to cope with information and decision overload,<sup>40</sup> it is also clear that institutions may entail sets of actors amongst whom an unequal distribution of incentives can be found, and thus relations of power will often be involved in the sense that a particular rule may privilege some actors at the expense of others.<sup>41</sup>

*Actors* in this scenario are specific historical entities, individual or collective, with a capacity for agency: being capable of having acted differently.<sup>42</sup> Although the behaviour

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- 36 The resemblance with North's definition is obvious, although the use of the expression 'social relations' rather than 'social exchange' is intended to highlight the pervasive nature of institutional structuring of social interaction. North's position has, not surprisingly, been echoed by other institutional economists (e.g. Johnson & Lundvall 1989, and Hodgson 1989) and similar statements can be found in the writings of neo-institutional political scientist Peter Hall (1986 pp 19f), and strategic-relationist state theorists (Thomsen 1991b pp 156ff, Hay 1995 pp 199ff). Giddens' definition of social structures as "rules and resources" (1984 p 17) is in fact closely related because his definition of resources as "the modes whereby transformative relations are actually incorporated into the production and reproduction of social practices" (1984 p 18) in effect appears to turn resources into a special type of rules.
- 37 The insistence on structures being not just negatively limiting but also positively enabling from an actors perspective is widespread (e.g. Hodgson 1989 p 132, Jepperson 1991, Thomsen 1994 p 13, Hay 1995 p 200). Here the more precise distinction between prohibition etc. is employed, originally proposed by Bloomington public-choice theorist Elinor Ostrom (1986 pp 5f) as a prologue to an even more detailed typology of rules for use in micro-studies of social interaction. For an introduction to the thinking of the Bloomington school, see Bogason 1994.
- 38 The role of informal or 'cultural' norms is generally recognized (North 1991 pp 4ff, ch. 5; Hodgson 1989 pp 123-34), but cf the discussion below it is essential to make an analytical distinction between the abstract institutional rules and the historical organizations that either uphold a specific rules or operate in accordance with them.
- 39 Giddens argues this point forcefully as part of his structuration theory (1984 pp 25ff), but it would also seem to be fundamental to strategic-relationist state theory (Hay 1995 pp 199ff); neo-institutionalist economists such as North (1991 pp 8f) certainly recognize the role of agency in the transformation of institutions, but the relationship between structures and actors somehow appears to be, for want of a better word, 'looser' than in the writings of Giddens and Jessop.
- 40 Hodgson 1989 p 128.
- 41 Giddens 1984 p 18, cf the discussion of power below.
- 42 Giddens 1984 p 9.



of actors is circumscribed by institutions,<sup>43</sup> their agency through choice is still intact because institutions structure the environment of actors rather than determine their behaviour directly.<sup>44</sup> The possibility of actors to influence their own circumstances would furthermore seem to be enhanced by the historical co-existence of many institutions that makes it possible to 'escape' by moving from one set of social relations to another, and also facilitates deliberate attempts to bring about institutional change by modifying or eliminating particular rules. At the same time it is, however, important to stress that the strategy of any actor will be limited by the resources available to them and their cognitive map of the environment in which they operate. Actors are not omniscient but guided by bounded rationality:<sup>45</sup> they pursue their objectives on the basis of incomplete perception of the environment, limited by their vantage point and the resources involved in gathering and processing information, and thus the likeliness of constant or sudden challenges to existing institutional structures would still seem to be fairly limited.

*Organizations* are defined as a collective actor, namely "groups of individuals bound by some common purpose",<sup>46</sup> and like individual actors they operate in a strategic manner in relationship to a structured environment. Organizations may owe their existence to a variety of reasons: many will have been set up with a view to exploit opportunities or defend interests defined by existing institutions,<sup>47</sup> but other organizations function as embodiment of a particular institution with the purpose of making other actors act in accordance with a specific set of rules. In both cases, however, it is important to underline that organizations differ from individual actors in that they incorporate social relations: their functioning involves not only interaction with a structured external environment, but also the operation of other sets of rules governing the internal workings of the organization. This points to a significant feature of organizations, namely the co-existence of parallel agendas where the official objectives in relation to the external world will compete with more internal objectives like defending resources or the interests of individual components of the organization.

The inspiration, positive or negative, for these formulations is spelt out in the footnotes to the preceding paragraphs, but before moving on the task of applying these concepts to areas relevant from the perspective of regional policy, it is perhaps worth

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43 As social relations are a defining characteristic of society (cf Giddens 1984 ch. 1), it would take a hermit (or a suicide) to 'opt out' of them altogether.

44 Ostrom 1986 pp 5ff.

45 Originally the sociologist Henry Simon's expression (Hodgson 1989 pp 79ff), but central in the institutionalist critique of the neoclassical paradigm.

46 North 1991 p 5.

47 North 1991 ch. 9.

briefly to indicate what appears to be the advantages of the position outlined above. *Firstly*, the conceptualization of the relationship between institutional structures on the one hand and social actors on the other hand clearly allows for mutual leverage - while institutions structure the environment in which actors operate, agency will intentionally or otherwise reproduce, modify or discontinue particular rules - and thus the fundamental objective of establishing institutional structuring and historical agency as two separate, yet related, levels of enquiry has been achieved.<sup>48</sup> *Secondly*, the potentially systemic nature of sets of rules entailed in an institution - rules may embody particular development tendencies or interact in complex patterns<sup>49</sup> - is underlined by the decision to denote general rules and specific collective actors by the Northian pair institution-organization rather than the organizational-feature/institution coupling of March & Olsen.<sup>50</sup> *Thirdly*, it is worth recalling that the reemergence of the spectre of reductionism in the guise of structuralism has been made even more difficult by insisting on the co-existence of several institutions in a particular historical setting. And *fourthly* it is possible to understand social transformation as a open-ended structured process because change can either result from the strategic behaviour of individual actors and organization, be propelled by tendencies and tensions on the institutional level, or - typically - be brought about through the complex interaction of developments on these two levels of analysis. Although the inspiration from not least new institutional economics and the strategic-relationist school is of course very much in evidence, it is still hoped that this platform is not only suitable for its immediate purpose but could perhaps also prove useful in the context of other empirical research projects by charting a fruitful road between the large-scale conceptual engineering projects of Jessop and Giddens on the one hand and the more minimalist approach of Douglas North.

### *Economy, Institutions and Space*

Over the last century a prominent feature of the social sciences, institutionalist or otherwise, has been the attempt to distinguish between major areas of social exchange that function on the basis of different 'standard operation procedures', incentives and

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48 Despite the structuralist and other excesses marring the marxist tradition, it is tempting to recall one of the founding father's most perceptive and oft-quoted statements, namely that "people make history, but not in conditions of their own choosing".

49 For a discussion of this from a macro-historical perspective, see Halkier 1990b.

50 Stressing the systemic nature is actually closer to the thinking of the strategic-relational tradition (Jessop *et al.*) because institutions in North's writings tends to be relatively simple constructs. This effect could also have been achieved by using the word *structures* to denote sets of rules, but despite - or perhaps because - the efforts of Anthony Giddens to rid this concept from its structuralist connotations, this option was still considered to be less attractive.

rationalities. While most writers have concentrated on one particular set of institutions - Smith, Marx and Schumpeter on the economy, Weber and Easton on politics, and Habermas on civil society - these were analyzed in contrast to other spheres of human activity, and thus the vast majority of empirical and theoretical work undertaken in the various fields of social science ex- or implicitly recognize the existence of such large-scale "institutional orders".<sup>51</sup> Not surprisingly, such endeavours have also been a central feature of the various institutionalisms,<sup>52</sup> and hence the following analysis will take as its point of departure the distinction between economic institutions on the one hand and political institutions on the other hand.

Beginning with an outline of basic institutional features of the former, the text draws its inspiration from both institutionalist economics in general (North, Hodgson), and institutionalist-oriented studies of technological change (Lundvall) and spatial development (Scott & Storper) in particular. The result of this exercise is set to differ substantially from the traditional neoclassical perspective which assumes that the world is inhabited by rational maximizing economic agents who act on perfect information about prices in a situation with static technologies and preferences.<sup>53</sup> Consequently a long list of common phenomena has to be 'bracketed off' as market failures<sup>54</sup> because they are at odds with the focus of the core model on movements towards market equilibrium, and hence the neoclassical tradition from the outset in fact limits itself to a relatively narrow field of inquiry.

In contrast to this, institutionalists have defined the economic sphere of social activity as the production and exchange of goods and services and insisted on seeing the development of preferences and technologies as integrated parts of the economic system.<sup>55</sup> While neoclassical economics sees the market as *the* institution of economic coordination and a mechanism furthering efficiency and growth,

(the) fundamental institutionalist proposition is that it is the whole organizational structure of the economy which effectively allocates resources and distributes income, not just the market mechanism.<sup>56</sup>

Starting instead from the concept of *transaction costs*, a rather different perspective has been developed on both economic institutions and, not least, economic development and

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51 Giddens 1984 p 31.

52 Bogason 1989 pp 221ff.

53 See Johnson & Lundvall 1989, Hodgson 1989 p xiv, and Gee 1991.

54 See e.g. Milgrom & Roberts 1992 pp 73ff.

55 Hodgson 1989 pp 15ff.

56 Foster 1991 p 211.

change. While the term obviously refers to the difficulties involved in setting up and carrying out the exchange process, two different approaches have developed. Douglass North and others have emphasized quantifiable transaction costs, i.e.

the costliness of information ... (in) measuring the valuable attributes of what is being exchanged and the costs of protecting rights and policing and enforcing agreements.<sup>57</sup>

An advanced application of this is the elaborate typology developed by Milgrom & Roberts, distinguishing between coordination and motivation costs and introducing five dimensions that will influence an actor's handling of the problem of incomplete information.<sup>58</sup> The operational nature of this approach is, however, also a weakness, because if transaction costs were quantifiable they could be accommodated within a neoclassical market framework,<sup>59</sup> and this would actually undermine another central institutionalist proposition, namely that transaction costs can explain the occurrence of non-market economic organizations such as the firm.<sup>60</sup> Instead Hodgson argues that the much more radical notion of structural uncertainty must be taken into account, too, namely

lack of information about the fundamental nature of the problem and the type of outcomes that are possible.<sup>61</sup>

The reason for this is that invoking structural uncertainties in the markets for labour, goods and services is the only way in which transaction costs can explain the widespread *abandoning* of market exchange in favour of non-market types of control by economic actors.<sup>62</sup> Although liberal thinking has seen markets and private firms as two sides of the same coin, the institutional features of the two are profoundly different:<sup>63</sup> markets by definition involve free and recurring exchange of particular goods between many individual actors in order to allow the price mechanism to function, while firms are hierarchic organizations with built-in relations of power between owners, managers and

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57 North 1991 p 27.

58 Milgrom & Roberts 1992 pp 28ff.

59 Hodgson 1989 p 201, Foster 1991 pp 224ff. The integration of transaction costs and neoclassical perspectives appears to be a central ambition of Milgrom & Roberts (1992).

60 If transaction costs were quantifiable and hence calculable like production costs, presumably markets for information would develop and make non-market organizations like firms superfluous.

61 1989 p 204.

62 For a discussion of the shortcomings of the traditional institutionalist interpretation of the origins of the firm position developed by Coase and Williamson, see Hodgson 1989 pp 199-212.

63 The following line of argument is based on Hodgson (1989 pp 172-79, 203-12) and North (1991 ch. 9).

employees. A firm *may* opt to use market exchange to further its interests, but other strategies are also available, e.g. internalization of sub-contractors through acquisition or customized production for long-term private or public clients, and while all these activities will at some point involve money as a medium of interaction, these forms of private exchange must not be confused with a market relation in the proper sense of the word.<sup>64</sup> This does not imply that non-market organizations like firms are inherently superior means of organizing economic exchange,<sup>65</sup> but rather that in practice the position of the market as an institution of exchange is highly contested one. And when markets are not seen as inherently superior, but rather as just one possible solution to the problem of economic exchange in a situation with an elaborate division of labour, the neoclassical concept of 'market failure' becomes redundant - or restricted to the vocabulary of liberal ideology.

Processes of qualitative economic change based on technological innovation have been difficult to accommodate within a neoclassical framework where price signals are the only transmitters of information,<sup>66</sup> but such phenomena have been at the heart of the institutionalist venture.<sup>67</sup> Lundvall and others have developed the concept of the 'organized market' which

involves the parties in a process of interactive learning which is an important input into the process of innovation ... (and) integrates, through control and cooperation, a critical part of (the) environment and makes it less uncertain.<sup>68</sup>

As innovations become more complex and systemic in nature, the communication processes between users and producers become more extensive and complicated, and therefore technological change will often depend on durable and selective user-producer relations of a non-market nature.<sup>69</sup>

The notion of 'organized markets' - effectively non-market relations - can be seen as a, perhaps particularly successful, example of the more general claim made by institutionalists that economic development is 'path dependent'.<sup>70</sup> technologies and

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64 Hodgson 1989 ch. 8, cf Johnson & Lundvall 1989 pp 92ff.

65 Especially the attempt of Oliver Williamson to explain the emergence of firms by means of a transaction-cost approach appears to assume a tendency in institutions and organizations to develop in direction of greater efficiency, cf Villumsen (1994 pp 37ff) and Hodgson (1989 pp 199ff).

66 Johnson & Lundvall 1989 pp 97f.

67 E.g. North's work on economic history and Lundvall *et al.* on the organization of the innovation process.

68 Johnson & Lundvall 1989 p 94.

69 Johnson & Lundvall 1989 pp 95-102.

70 North 1991 p 93, Villumsen 1994 p 43.



production systems tend to continue developing in a particular direction, even when this path may ultimately be less efficient than other alternatives. Firms and other economic actors are not free to choose optimal solutions but operate on the basis of 'bounded rationality'. Their options are limited not only by incomplete and costly information and self-reinforcing economic factors - fixed investments, learning and coordination effects that privilege particular in-groups of actors<sup>71</sup> - but also by the broader institutional and organizational framework in which the process takes place. The notions of capitalism as 'a learning economy' does in other words not guarantee economic or technological development because while the dis-equilibria of 'organized markets' may sometimes be a precondition for development,<sup>72</sup> the organizational and institutional setting may also propel actors in other directions:

Whether the most promising (short-run profitable) alternative is investing in piracy, constructing an oil cartel, or developing a more high-power chip for computers, it is the existing constraints and changes in incentives at the margin that determine opportunities.<sup>73</sup>

More or less honourable pursuit by the moral standards of Protestant capitalism that may be perfectly rational from the perspective of a particular actor, but some of which would nonetheless seem to leave a lot to be desired in terms of long-term economic development.

The adaption of an institutional perspective should make it easier to analyze the relationship between public and private organizations in terms of rules, resources, rationalities and incentives. On the most abstract level it is clear that in a situation of extensive social division of labour the interaction between independent producer organizations (firms) requires the presence of institutions such as e.g. property rights and markets,<sup>74</sup> and that these sets of rules must be embodied in particular organizations. Historically, the task of rule enforcement has generally fallen to state bodies due to their external third-party nature,<sup>75</sup> and thus the functioning of the economy depends upon the presence of particular political organizations. This idea is captured in the notion of economic institutions having *political conditions of existence*,<sup>76</sup> and is an important pillar

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71 North 1991 p 94.

72 Storper *et al.* cf Ernste & Meier 1992 p 270.

73 North 1991 p 100.

74 North 1991 ch. 6 & 7, Hodgson 1989 pp 182-94.

75 External, that is, to most of the *individual* producers, not necessarily to the economy as such, cf the discussion below.

76 The notion of 'conditions of existence' does not stem from institutional economics, but has been inspired by earlier work (Halkier 1990b) in an related field, the mode-of-production debate. Here I argued, elaborating on an argument by Hindess & Hirst (1975 pp 13ff), that a 'minimalist Marxism' with  
(continued...)

supporting the central contention of institutional economics that the direction and pace of economic development depends on institutional and organizational features in *both* the economic *and* political spheres of society. The ultimate implication the notion of political conditions of existence is of course that economic dysfunction for political reasons becomes a distinct possibility because the effective presence of rule-enforcing organizations cannot be taken for granted as these have to be established and maintained through social and political conflicts.

The adoption of an institutional perspective also has consequences with regard to the explanation of economic discrepancies between regions. While neoclassical economists have seen spatial inequalities as a question of

comparative advantage (based on pregiven endowments), market exchange, and concomitant spatial flows of capital and labour ... where regional inequalities will become nothing more than temporary and self-correcting aberrations<sup>77</sup>

writings inspired by the institutionalist approach have maintained that both path-dependency and the local institutional and organizational setting have a critical impact on the spatial distribution of economic activity. The prospects of economic prosperity for a particular region will in others words depend on hitherto backgrounded or overlooked factors such as the nature of inter-firm transactions, the organizational framework for innovation and the labour market, regional business cultures, and the interplay between public and private actors on the regional level.<sup>78</sup>

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76 (...continued)

emphasis on the 'non-economic conditions of existence' of particular economic modes of productions seems to stand a better chance of surviving empirical scrutiny than does more elaborate models that incorporate both economic and non-economic social relations in extensive functionalist structures. Similarly, it should perhaps be pointed out that the position adopted above also differs from that found in the various traditions of regulationist economics - often used to complement a strategic-relational approach to politics (e.g. Jessop 1990 and Bertramsen *et al.* 1991) - where 'regimes of accumulation' require the presence of corresponding 'modes of regulation' in the form of "an institutional ensemble and complex of norms" (Jessop 1988 p 150). The institutionalist position as delineated here would appear to be less 'systemic' in that it invokes specific 'conditions of existence' rather than more elaborate 'modes of regulation'.

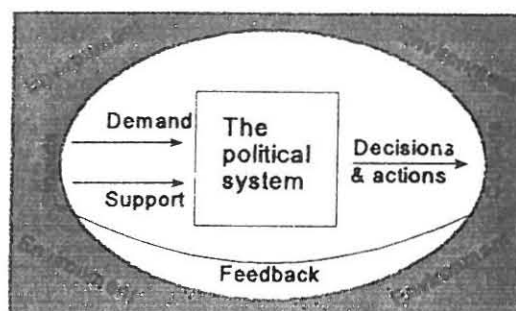
77 Scott & Storper 1992 p 9.

78 Scott & Storper 1992 pp 11ff, cf Morgan 1995 and Albrechts & Swyngedouw 1989. Although the regional version of institutional economics has been closely associated with the study of 'industrial districts' such as 'the third Italy' or Western Jutland and these sometimes are given paradigmatic status (e.g. Hirst & Zeitlin (eds.) 1989), the relevance of these considerations has clearly been demonstrated in other, more extroverted, regional economies as well, cf Morgan's analysis of the Welsh case (1995). Hopefully a long-term side-effect of the widespread interest in the third Italy will be to stimulate interest in the institutional environment of regional development and thus contribute to bringing about a much-  
(continued...)

### *Politics, Institutions and Space*

The above discussion of economic institutions has been greatly aided by the possibility of relying on a simple dichotomy between the dominant neoclassical paradigm and institutional economics. In political science the academic landscape appears.

An appropriate starting point would, however, be the developments in the 1950s that broadened the field of study and took political science beyond its original emphasis on constitutional and other formal aspects of the political process. In David Easton's *The Political System* politics was defined as "the study of the authoritative allocation of values for a society",<sup>79</sup> and, as illustrated by Figure 1, his model of the political system emphasized the relationship between the political system and its external environment by focusing on the inputs of specific demands and general support, and outputs in the form of decisions and policies. The functionalist implications of Easton's model



**Figure 1.** Easton's model of the political system. *Source: Easton 1965 p 32.*

that responds to demands by means of remedial actions and thereby generates support and new demands in an never-ending loop - but the basic idea of exploring the links between various parts of the political process became a central aim in many of the approaches to political science that flourished in the 1960s and 1970s. As argued in the March & Olsen manifesto,<sup>81</sup> many of these traditions have conceptualized the relationship between actors and institutions in ways that are unsatisfactory from an institutionalist perspective - e.g. atomism in behaviouralism and public choice, or reductionism and structuralism in marxist state theory - and hence there would seem to be good reasons for developing an alternative. Given the current, largely programmatic, state of the new political institutionalism, the most negotiable route would, however, appear to go via a body of political theory written *outside* institutionalism as such, but in which the relationship between institutions and social actors is conceived in a manner than comes close to the

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78 (...continued)

needed expansion of the methodological horizon of regional economics.

79 Easton 1953 p 129.

80 See Andersen 1991 ch. 2.

81 1984 pp 735-38.



institutionalist position outlined above. The strongest candidate for this task is what has become known under the somewhat cumbersome name of strategic-relational state theory,<sup>82</sup> in practice synonymous with works written or inspired by Bob Jessop.<sup>83</sup>

If politics concerns "the constitutive decisions which bring about a specific structuration of social life",<sup>84</sup> then the state assumes a pivotal role in this area of social activity. Jessop defines the state as a distinct ensemble of institutions and organizations

whose socially accepted function is to define and enforce collectively binding decisions on the members of a society in the name of their common interest or general will.<sup>85</sup>

Although not couched in the language of institutionalism, the character of the state as embodying rules that structure social relations comes clearly across, and thus the state can be identified as the central political institution. The following pages outline the consequences of these formulations for 1) the study of politics, 2) the relationship between economic and political phenomena, and 3) the spatial dimension of politics. The definition of the state adopted above may serve as a way of structuring the study of political phenomena.<sup>86</sup> On the one hand it is possible to distinguish between three different *processual* aspects:

- *external influences* on the state stemming from the dual demands of acting in the name of common interests and at the same time maintaining the overall social acceptance (legitimacy) of its functions,
- *internal influences* related to the process of interpreting *la volonté generale* and implementing political decisions, and

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82 For a succinct statement of the strategic-relational position in the structure-agency debate, see Hay 1995 pp 199ff. The highly pragmatic argument - that Jessop *et al.* appear to offer a short-cut towards an adequate conceptual framework - should not be construed as a rejection in principle of the possibility of constructing a reasonable starting point on the basis of the writings of the new institutionalism. At present the best alternative to the strategic-relational approach as a non-institutionalist starting point could well be the work of Helmut Willke, cf Pedersen 1994 and Jessop 1990 pp 320ff.

83 Jessop's *State Theory* (1990), a collection of partly revised essays stemming mainly from the 1980s, provides firsthand insight into the development of the central figure in the tradition, while Bertramsen *et al.*'s *State, Economy & Society* brings together insights from regulationists economics, Laclavian discourse analysis, and Jessopite strategic-relationism.

84 Bertramsen *et al.* 1991 p 27. Although the authors declared intention is to contribute to "a radical blurring of the lines of demarcation between state, economy and society" (p 6) and the lines back to Easton's definition are evident, this Jessopist definition actually manages to add a much-needed edge to the classical formulation by stressing the institutional aspect of politics.

85 Jessop 1990 p 341.

86 Jessop 1990 pp 345ff.

INSTITUTIONAL/ ORGANIZATIONAL	Input	Forms of representation
	Withinput	Internal organisation
	Output	Forms of intervention
STRATEGIC	Underlying	Social base of state power
	Inner-dwelling	State project (boundaries, inner unity)
	Overarching	Discursive hegemonic project

**Figur 2.** Dimensions of the political process. *Source: Jessop 1990 pp 345ff.*

- *external consequences* of state activities, both in terms of enforcing collectively binding decisions and maintaining legitimacy.

On the other hand it will be necessary to employ two analytical strategies that complement each other by focusing on structures and agency respectively, namely:

- an *institutional/organizational* perspective that involves the study of the basic rules and organizational aspects of the political process, and
- a *strategic* perspective where focus is on the behaviour of individual and collective actors in relationship to the political process.

By combining processual aspects and analytical strategies Jessop arrives at six dimensions that can be employed in the analysis of the state,<sup>87</sup> summarized in Figure 2.

Looking at the formal aspects of the political process first, it should be underlined that the state is “a selective terrain” where not only the rules governing representation but also the internal principles of organization may give priority to certain actors and interests at the expense of others, depending on e.g. the electoral system, the role of organized interests in the policy-making process, the constitutional relationship between the different tiers of government, and the territorial organization of the executive. The internal organization of state bodies since some point in the 19th century<sup>88</sup> has generally resembled

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87 Perhaps tongue-in-cheek, Jessop the state theorist remarks that this is of course only a short-cut for those “impatient with conceptual hierarchies” that “has some merits” for “less ambitious purposes” (1990 p 345). As will hopefully become apparent, it therefore sits well with the attempt of the present text to establish a foundation for development of a conceptual framework for empirical studies, not just with regard to its ability to structure the analysis of the political process, but also in terms of the level of theoretical ambition involved.

88 This text deliberately avoids the question of the historical origins of the modern bureaucratic state and  
(continued...)

the Weberian ideal type of bureaucracy with impersonal authority vested in a hierarchy of offices employing salaried professionals,<sup>89</sup> although some public organizations operating on the edges of the state apparatus have drifted towards other organizational models. That the state must be embodied in a particular set of organizations also means that parts of the state apparatus may generate their own interests and preferences, not just in terms of securing jobs and influence for a particular office,<sup>90</sup> but also in the form of competences and standard operating procedures that may be more compatible with some policy measures than with others.<sup>91</sup> As the output of the state is supposedly to be enforced on members of society, the concept of power and the forms of intervention become pivotal, especially in studies where the relationship between public and private actors takes centre stage, and therefore these issues will be dealt with at greater length in a subsequent section of the present paper.

Turning to the strategic aspects, it should first be noted that also political actors operate on the basis of bounded rationality in a situation of incomplete information and ubiquitous transaction costs, and that this applies both to political parties and interest organizations in their attempts to gain influence, and to the state organizations when trying to device policy measures that can promote whatever is defined as the common interest. Strategic political behaviour can be ascribed to groups and organizations both external and internal to the state apparatus, and their strategies may concern either specific policy outputs or relate to the state itself by questioning its boundaries, inner unity or the basic rules governing its operations. As preservation of the legitimacy of the state is essential for the functioning of the political process, a central task for the state and major political forces will be to establish and maintain a hegemonic project through

(the) discourses which define the illusory community whose interests and social cohesion are to be managed by the state ... (and thereby provide) political, intellectual and moral guidelines for the conduct of state policy.<sup>92</sup>

It should perhaps be noted that having brought in the notion of discourse does *not* imply

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88 (...continued)

its relationship to the development of capitalism. The traditional intimate coupling of capitalism and bourgeois democracy in traditional Marxism is certainly open to criticism, and the position of Nicos Poulantzas, the intellectual stimulus behind Jessop's writings, on these matters certainly no less so; see Poulantzas 1975 pp 157-68, 173-80 cf Halkier 1990b.

89 Ham & Hill 1984 ch. 3.

90 Lane 1995 ch. 2.

91 Ham & Hill 1984 ch. 8.

92 Jessop 1990 p 346.

a last-minute introduction of a 'linguistic turn',<sup>93</sup> but is merely a pragmatic recognition of the material importance of the ways in which the world is depicted and perceived for the process of political continuity and change.

With regard to the question of the relationship between political and economic phenomena, the proposed delimitation of politics and the definition of the state adopted would at first glance appear to create an ambiguous theoretical situation. Despite the constant extolling of the virtues of institutionalism as a way of imposing a unitary perspective on the study of political and economic phenomena, the present text has clearly *not* established a clear-cut line of demarcation between the political and economic spheres of society. By contrasting authority and production the core areas of politics and economics may have been separated, but at the same time the scope for overlap in the form of e.g. politically authorized production of goods or services is also considerable. Obviously the direct cause for this muddle is that two spheres are not defined by means of symmetrical criteria.<sup>94</sup> The economy is delimited along *functional* lines as a particular type of material activity distinct from consumption, whereas politics is identified as a specific principle for resource *allocation*, namely decisions imposed on behalf of the community as a whole - as opposed to private forms of interaction such as e.g. market exchange. The problems of delimitation may appear to be an ambiguity caused by lack of intellectual rigour, but in the following I shall argue that this inserts the historically tense and awkward relationship between political and economic activities into a broader institutional framework and thereby in fact provides useful insight into the relationship between these two spheres of modern society.

Although graphic depictions of multi-dimensional social phenomena are as prone as spatial metaphors to be unduly simplistic,<sup>95</sup> it is hoped that Figure 3 will provide a useful illustration of the following argument.

*Firstly*, the difference between the economic and political spheres of society with regard to their mode of operation must again be emphasized: while the exercise of public authority is a defining characteristic of politics, the modern capitalist economy is based on private exchange between individual or collective actors, market- or otherwise. The incongruity between the basic rules is of fundamental importance because it imbues the organizations and individual actors operating in the two areas with profoundly different rationales and objectives: individual or collective producers pursuing private prosperity

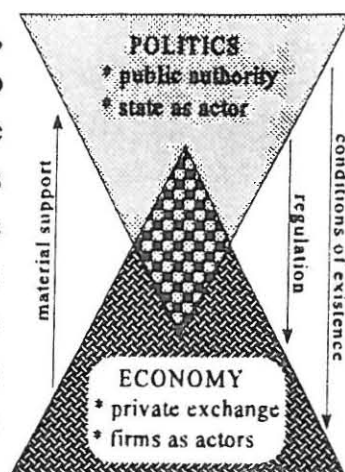
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93 For a paradigmatic statement of Essex-style discourse analysis in politics, see Laclau & Mouffe 1985. For critical evaluations, see Jessop 1990 pp 288-304, Thomsen 1991a, Halkier 1987 and 1990a.

94 For a discussion of possible principles for the delimitation of the public sector, see Lane 1995 ch. 1.

95 The notorious base-superstructure distinction in some marxist traditions immediately springs to mind, cf Halkier 1990b.

versus the state championing common interests. *Secondly*, despite their different institutional characteristics it must also be stressed that the two spheres are mutually dependent. On the one hand the state is materially supported by resources generated in the economy, and on the other hand economic activity could not exist without the enforcement of the rules governing e.g. market exchange and property rights, and the upholding such conditions of existence for the productive system has usually fallen to the state as matters of public interest.



**Figur 3.** Politics and the economy: institutions and organizations.

*Thirdly*, political demands for social equality with regard to e.g. education, health, or transportation may take the operations of the state itself into areas that unequivocally are of an economic nature because they involve the production of services.<sup>96</sup> This creates a 'chequered' zone of engagement between the political and economic spheres in which their respective rationales will collide as organizations strive to promote their respective interests. *Fourthly*, most states have also assumed the role of regulator of economic activities on a more detailed basis in order to achieve common goals that private producers could not be expected to pursue in an efficient manner if left to their own devices. Institutionalist have tried to identify the areas in which state regulation is essential or most likely by distinguishing between different types of goods along two dimensions, subtractability and exclusion,<sup>97</sup> where subtractability refers to the degree to which one person's consumption of a particular good limits that of any other individual, and exclusion refers to the possibility of and cost involved in excluding additional consumers once a good has been produced. As can be seen from Figure 4, this divides goods into four main categories of which one, public goods, requires political action to be produced because of the inherent free-rider problem: why pay for something that is readily available anyway? In other categories political regulation *may* be required to ensure provision in the long term - for example by preventing individual actors from exhausting common-pool goods through overuse, by safeguarding supply and controlling prices of toll goods in situations of monopoly, or by achieving broader social goals like e.g. employment opportunities<sup>98</sup> - but at the same time their ambiguous nature also ensures that such

96 From this perspective the only element of the welfare system that does not involve the state in economic activities would be purely financial forms of social support.

97 Kiser & Ostrom 1982 pp 195-201.

98 For an extensive discussion, see Lane 1995 pp 23-32.



		SUBTRACTABILITY	
		High	Low
EXCLUSION COSTS	Low	<b>Private goods</b> (cars, haircuts)	<b>Toll goods</b> (road, library, theatre)
	High	<b>Common-pool goods</b> (ground water, fish in ocean)	<b>Public goods</b> (security, pollution control)

**Figur 4.** Subtractability and exclusion. *Source: Kiser & Ostrom 1982 p 192.*

intervention is likely to involve direct conflicts between the common interests embodied by the state and the private interests of individual economic actors.

*Fifthly*, the inherent limitations to effective state intervention in the economy must be stressed. A basic feature of industrial capitalism is the institutional and organizational separation of the state on the one hand and a large number of private producers on the other hand. As the state has no direct role in the organization of large parts of the production process, most of its economic interventions are destined to be either *a posteriori* remedial reactions,<sup>99</sup> or *a priori* attempts to influence private actors indirectly by changing the incentive structure - neither of which guarantees a successful outcome from the perspective of the regulating political body.<sup>100</sup> Moreover, as Jessop points out, the state

responds to the *political* repercussions of any economic crisis rather than to the crisis as such<sup>101</sup>

and thus the ever-present transaction-cost induced difficulties in identifying the causes of a particular economy-related problem are exacerbated by the political nature of policy making.<sup>102</sup> Economic policies are in other words mostly reactions to political articulation of particular problems, and this gives short-term economic and political interests and the dominant discourses and ideologies a significant influence on the pattern and effectiveness of state intervention.

All in all we have a situation where the relationship between political and economic institutions is potentially conflictual - due to their different institutional nature - and where this potential is likely to surface in a conspicuous manner because the relationship

99 Jessop 1990 p 356.

100 Cf the discussion of policy instruments below.

101 Jessop 1990 p 156.

102 Cf the discussion of policy objectives in Halkier 1996.

is not just voluntary and external, but in fact compulsory and intimate. Economic and political organizations are inherently dependent upon one another, and the logic of the common interest is likely to generate a political drive towards extended regulation of private economic activities and the development of state-initiated economic activities, and thus the scene has been set for permanent, pervasive and uneasy interaction. The historically recurring conflicts between individual and collective actors, focusing on the nature of political intervention or the redrawing of the borders of political organizations vis-à-vis the rest of society, would thus in the end seem to have been illuminated by the ambiguous delimitation of political and economic activities rather than obscured.

Turning to the spatial dimensions of politics, it is again helpful to employ the distinction between organizational and strategic aspects. From a formal perspective, multi-tier political systems is a feature of most modern societies, and thus the basic structure of the state entails the possibility of conflicts with a spatial dimension between lower-tier bodies and national-level organisations and internally amongst the former. The relationship between public bodies has been an area in which writings inspired by or bordering on institutionalism occupy an important place,<sup>103</sup> and Rhodes has argued that also political actors on the sub-national level may be able to device strategies that can promote the perceived interests of their local area, even vis-à-vis central government, by employing the rules governing the exchange of resources between public organisations to their advantage. The way in which space enters the political process does in other words not only depend upon formal aspects such as the constitutional distribution of decision-making capacity, but also very much on the strategies and behaviour of the actors involved, both on the national and sub-national level. Obviously, the relative position of a local elite with regard to economic strength, social cohesion and political organization can make a difference, but so can the presence and intensity of regionalism or separatism as an alternative state project that may threaten a unitary political system and its associated integrative nationalist discourse.

Historically, nationalism and the idea of equal rights for all citizens have been prominent elements of the hegemonic discourse in most industrialized countries,<sup>104</sup> and with the extended, socialized, version of citizenship offered by the post-1945 welfare states, regional economic equalities acquired a potential for becoming destabilizing issues that could be incorporated in the political strategies of both national and sub-national

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103 R. A. W. Rhodes' development the so-called power-dependence framework has proved to be seminal (1981, 1988 ch. 2), Anderson (1992) is a major study undertaken along these lines, and the work of Chris Moore moves along similar lines (Moore & Booth 1989, Moore 1994).

104 See e.g. Smith 1991, Hobsbawm 1990, and Hedetoft 1995.

political actors. While spatial policies designed to address economic differences could appear to be the obvious answer to this type of political demands, such policies certainly also have the potential for becoming controversial in their own right. Other regions may resist preferential treatment to a particular area, political actors may oppose measures perceived to run counter to their ideological values, and thus government initiatives may be obstructed - or reduced to mere symbolic gestures that may deal with the political problem in a short-term perspective but leaves the underlying structural economic weakness intact. Like other forms of state intervention, regional policy cannot be taken for granted.

This chapter set out to locate a unitary framework for the study of interaction between public and private organizations, a framework capable of accounting for social transformations as an open-ended structured process from a non-reductionist perspective. In order to reach this goal, the first theoretical obstacle to be negotiated was to *reformulate* a number of general concepts such as institutions, actors and organizations. The point of departure was to delineate a *minimalist institutionalism* that enhanced a Northian position with insights from strategic relationism, Bloomington-style rational choice and structuration theory, and a key important result was the insistence upon the necessity of employing two separate, but connected, levels of analysis: the *institutional level* inhabited by abstract social rules and the *historical level* occupied by individuals and organizations as social actors. Hereby the reformulation, hopefully, maintained clarity while introducing more complex, conflictual and systemic features into the institutionalist perspective.

Armed with the results of this general theoretical inquiry, a review of literature inspired by the new economic institutionalism highlighted the importance of transaction costs, non-market economic relationships, and the political conditions of existence on which economic institutions rely. With regard to the analysis of political phenomena, Jessop's strategic-relationism filled the gap left by the new political institutionalism, and this lead to the stressing of institutional/organizational and strategic perspectives as two complementary approaches. By connecting the institutional analysis of economic and political phenomena, it was finally possible to locate the roots of the 'permanent, pervasive and uneasy' interaction between economic and political organizations in a combination of conflicting institutional rationales, overlapping functional spheres and mutual material dependency.

All in all the chapter would thus seem to have succeeded not only in establishing a unitary framework capable of accounting for political and economic phenomena and their interaction, but also in underlining the conflicts inherent in this process. These insights provide an important backdrop to the analysis of the policy-making process, also with



regard to regard to regional development initiatives, and we can now turn to matters of a more detailed nature.

## 2. Policy Matters

Having delineated the basic features of the political and economic institutions relevant from a regional policy perspective, it is now time to narrow down the focus and take a closer look at the process of public policy-making. Obviously the preceding discussion of political institutions has established the foundation on which this section will elaborate, but as policy analysis has become a major field of study in its own right, an examination of existing approaches will provide the next step on the road towards an analytical framework for empirical studies of the politics of regional economic intervention.

The study of individual areas of government activity became a major area of academic activity in the 1960s in the wake of the expansion of the welfare states and their vast array of social and economic policies. Historically the origins of this scholarly activity would seem to owe much to the perceived failure of many of these initiatives, despite what appeared to be the best intentions of their political sponsors,<sup>105</sup> and these circumstances have certainly influenced the nature and direction of policy analysis as a field of academic study. On the one hand the initial focus was very much on what was seen as the weaknesses of the present workings of the policy-making process, and this may explain why much work entailed more or less explicit notions about how the ideal process should be. On the other hand many studies were evaluations of particular policy programmes undertaken for government bodies, and hence the practical and conceptual distinction between academic studies, consultancy work, and advocacy of particular policies or organizational arrangements became unclear.<sup>106</sup> Add to this the processual and relational nature of the object of study, involving a complex web of activities involved related to defining and enforcing collectively binding decisions in which a wide range of actors inside and outside the state take part, and the reasons why it has been difficult to delimit policy analysis as a distinct discipline would appear to be obvious.

The lack of well-defined external boundaries would, however, also seem to underline the necessity of reviewing major positions within policy analysis in order to identify an approach that is both compatible with the overall institutionalist framework

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105 Ham & Hill 1984 ch. 1; Hogwood & Gunn 1986 pp 32ff, 196ff; Mayntz 1993 pp 12ff, Albæk 1993.

106 On the conceptual level this resulted in attempts to distinguish between *policy studies*, i.e. knowledge of policy processes and areas, and *policy analysis* concerning itself with applying knowledge in specific policy processes (Hogwood & Gunn 1986 pp 26-31). This text follows Ham & Hill (1984 p 4) in using what has become widely recognized as the catch-all term, *policy analysis*, for both activities. It goes without saying that the following is written firmly within the analysis-of tradition, although it has benefitted from writings from the more applied tradition - Hogwood & Gunn - and the ensuing analysis of regional policy may eventually prove to be valuable from policy-maker perspective too.

and geared to a level of empirical detail adequate from the perspective of the study of the politics of regional policy. The discussion proceeds in three stages: first the strength and weaknesses of the dominant *top-down* approach is examined, then major *bottom-up* alternatives are reviewed, and finally a modified framework adopted for the purposes of this project is outlined.

### *Perfect Administration and the Top-down Paradigm*

The two basic assumptions in the top-down paradigm are that 1) the starting point of the policy-making process is the political decision to take public action in a particular matter, and consequently that 2) policy-making should be analyzed as the process through which political decisions are transformed into actions by state bodies. On the basis of this the policy process can be divided into a number of stages, as illustrated by Figure 5, and the most important function of policy analysts is to point out what possible distortions may occur at various points. The search for what Christopher Hood has called 'perfect administration'<sup>107</sup> has lead to the identification of a number of key conditions that should be fulfilled in order to ensure the flawless transformation of political decisions into public action.<sup>108</sup>

- *clear objectives*, unambiguously defined and based on a valid theory of causes and effects,
- *policy insulation*, i.e. absence of external circumstances, political or otherwise, that may undermine or counteract particular measures,
- *political control with implementation*, implying complete understanding and cooperation by all public bodies and staff involved, and
- *adequate policy design*, i.e. policy instruments capable of ensuring the compliance of the actors targeted by a particular policy, and allocation of the necessary financial and organizational resources.

<b>Policy formulation</b>	* agenda setting * issue filtration * issue definition
<b>Policy design</b>	* forecasting * setting objectives * options analysis
<b>Implementation</b>	* resources * application * effects
<b>Policy evaluation</b>	* performance review * policy changes

**Figur 5.** Phases of the policy process. *Source: Hogwood & Gunn 1984 p 24, Winter 1994 pp 15ff, and Sabatier 1993 pp 267ff.*

Obviously such stringent demands are rarely, if ever, met in the real world. A precise

107 Ham & Hill 1984 pp 97ff, Hogwood & Gunn pp 207ff.

108 Reformulated on the basis of Hogwood & Gunn (1986 pp 207ff), Ham & Hill (1984 pp 98f) and Sabatier (1993 pp 267ff).

definition of objectives is not only hampered by the transaction costs involved in specifying causal relationships in complex situations, but also by the political nature of such objectives: vague or symbolic statements of intent may be deliberately designed to cultivate political constituencies.<sup>109</sup> Insulation of the policy process may run counter to the need to generate political support or acquire information from the parties involved, and achieving it can be complicated by the existence of parallel policy programmes affecting the same sets of problems.<sup>110</sup> Central political control is limited by the very real possibility of public organizations or their employees pursuing different goals,<sup>111</sup> and financial, organizational and political reasons may undermine effectiveness by restricting the resources available or ruling out policy instruments perceived to be unduly coercive.<sup>112</sup>

Many of these valuable points have indeed been developed within the top-down tradition, but the approach also entails problems of a more fundamental nature. *Firstly*, the perception of the policy process as a rationalist search for the most effective means to address particular problems has been criticized along several lines:<sup>113</sup> some have argued that policy-makers tend to react to the political articulation of problems rather than the problems themselves,<sup>114</sup> while others have stressed that most 'new' policies are incrementalist modifications of existing ones.<sup>115</sup> *Secondly*, the instrumentalist notion of policy instruments as neutral vehicles for political objectives would also seem to be questionable: different organizational delivery arrangements and policy instruments may entail different incentives structures and relations of power,<sup>116</sup> and hence it is hardly surprising that the question of means is often as politically sensitive as the overall objectives. *Thirdly*, the demand for policy insulation as a condition for 'perfect administration' would seem to collide with a central feature of the institutionalist approach, namely the social embeddedness of political processes that sees political initiatives from outside the state itself as an intrinsic feature and makes the sustaining overall legitimacy of the state a purpose in its own right.

All in all this suggests that although the top-down approach has certainly highlighted

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109 Hogwood & Gunn 1986 pp 150-59, Jessop 1990 pp 156, cf the discussion above.

110 Sabatier 1993 pp 278ff, Hogwood & Gunn pp 222-28.

111 This is the classical bottom-up criticism of 'perfect administration', but, ironically, also a major preoccupation of the top-down tradition (e.g. Hogwood & Gunn 1986 pp 198-206).

112 Hogwood & Gunn 1986 pp 169f, cf the discussion in the following section.

113 Lane 1995 pp 77ff, Hogwood & Gunn 1986 pp 53ff.

114 Hogwood & Gunn 1986, cf Jessop 1990 p 156.

115 The incrementalist perspective is often associated with the work of Charles Lindblom, cf Ham & Hill 1984 ch. 5, Lane 1995 pp 75-79.

116 Cf the discussion in the following section.

a number of important specific features of the policy process, some of its underlying premises are less plausible and could easily restrict the analytical view by focusing on some aspects and relegating others to the status of negative impediments to the coveted 'perfect administration'.

### *Bottom-up Approaches to Policy Analysis*

Given the single-mindedness of the top-down approach it is hardly surprising that a number of alternative approaches to have emerged over the years, and that these have taken some of the critical points made above as their point of departure. While some have worked from the assumption of the impossibility of central political control with implementation, others have insisted on the importance of external actors and their relationship with the implementing public body.

One bottom-up trend in policy analysis has claimed that the basic problem of the top-down tradition was that it made political decisions the prerogative of politicians and top-level administrators and thereby denied the political nature of the decisionary discretion of front-line staff interacting directly with private actors.<sup>117</sup> As many public policies can neither be described nor controlled in minute detail, front-line personnel will have a measure of freedom to go about things in different ways, and as this will alter the way a target group is affected by public policy, the discretion exercised by "the street-level bureaucracy"<sup>118</sup> is in effect micro-level political decision-making that modifies 'the rules of the game' and/or the distribution of resources.<sup>119</sup> Front-line discretion is an inevitable part of the implementation process when this presupposes extensive interaction with private actors, not only in the provision of services such as education or health care, but also when it is necessary to obtain detailed information in order to establish whether a firm fulfills complex eligibility criteria for financial support.<sup>120</sup> Instead of seeing street-level discretion as an obstacle to the realization of political objectives defined from above, policy objectives are in a sense shaped or at least modified in the interaction between front-line staff and private actors, and thus the methodological implications is that instead of moving top-down to register the gradual perversion of political objectives through

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117 The classical works are Elmore 1979 and Lipsky 1980. For critical introductions to the this type of bottom-up analysis, see Ham & Hill 1984 pp 136-42 and Winter 1994 pp 78-86.

118 The title of Lipsky 1980.

119 This phenomenon can be seen in the development of individual strategies to cope with the day-to-day pressures of work - an overload of cases could result in routinization or informal rationing of services - and when front-line professional staff collectively impose their own informal norms on particular parts of the public sector (see e.g. Ham 1993).

120 Cf the discussion of modes of implementation in Halkier 1996.

imperfect administration, policy goals should imputed in a bottom-up movement known as “backward mapping”.<sup>121</sup>

Perhaps the most radical bottom-up approach has been put forward by Benny Hjern and his collaborators, arguing that concentration on just one policy programme, whether from above or below, entails the risk of exaggerating its impact on private actors.<sup>122</sup> Instead policy research should take its point of departure in 'implementation structures', i.e.

*subsets of members within organizations which view a programme as their primary (or an instrumentally important) interest. For these actors an implementation structure is as much an administrative structure through which purposive actions are taken as the organizations in which they are employed.*<sup>123</sup>

Again the bottom-up nature of the approach is evident, but now both public and private actors are included in the analysis, and the possibility of viewing a particular policy measure from the perspective of the target group and its interaction with front-line bureaucrats has been firmly established.

Even this brief outline of two of the major bottom-up approaches suggests that compared to the dominant top-down paradigm they should be able to make a distinct contribution to the analysis of the policy process. The role of private actors and their informal links with implementing public bodies are highlighted, and attempts are made to provide rational explanations for actor behaviour at the bottom of the implementation chain that from a top-down perspective has been seen as distortions. At the same time it would, however, also seem to be the case that work undertaken along these lines

may underestimate the Centre's *indirect* influence ... through its ability to affect the institutional structure in which individuals operate.<sup>124</sup>

Considerations of this sort has certainly been part of the design phase of the policy process, and thus the one-sided focus on micro-level studies of the goals and strategies of actors in effect takes the bottom-up close to being an inverted version of the much-maligned dominant paradigm.

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121 The title of Elmore 1979.

122 See e.g. Hjern & Hull 1987, and Hjern & Porter 1993. For a critical introduction, see Sabatier 1993 pp 276-80.

123 Hjern & Porter 1993 p 253 (*italics original*).

124 Sabatier 1993 p 279 (*italics original*).



### *An Institutional Approach to Policy Analysis*

Although both the existing traditions within policy analysis each in their own way are capable of making important contributions, it is also evident that none of them offers a comprehensive analytical framework. While the top-down approach tends to focus on processes internal to the state apparatus, the bottom-up alternative would seem to concern itself mainly with the implementation stage of the policy process and underplay the role of the constraints imposed in the policy formulation and design phases. While these limitations may be acceptable for some research purposes, they would certainly seem to be too narrow from the perspective of a study of the politics of regional policy where both the influence of the political environment, choices with regard to the design of individual policy programmes, and the relationship between the implementing body and private economic actors should be firmly within the analytical horizon. The scope for combining elements from the two traditions has, however, been demonstrated by amongst others Ham & Hill, Sabatier and Winter, and inspired by these contributions it should therefore be possible to develop a more comprehensive approach to the analysis of public policy.

From an institutionalist perspective, the general starting point for an empirical analysis of a policy process must be the interaction between the public and private organizations involved. As illustrated by Figure 6, these can be distributed into three groups with each their relationship to the policy process:

- *the policy-making organization*, i.e. the public body (or bodies) formally responsible for formulating and designing policies, including both elected politicians and the administrative machinery,
- *the political environment*, comprising external organizations that may provide input into the process and thereby influence the nature of policy initiatives, and
- *targeted private actors*, i.e. the organizations or individuals whose behaviour and strategies a policy is designed to influence by changing incentives in their environment.

Before going on to more specific comments, some general points about the model's position vis-à-vis other related bodies of literature should be made. *Firstly*, an institutional perspective would seem to be able to incorporate the strengths and interests of both the top down and bottom-up approaches by covering both internal and external influences in the

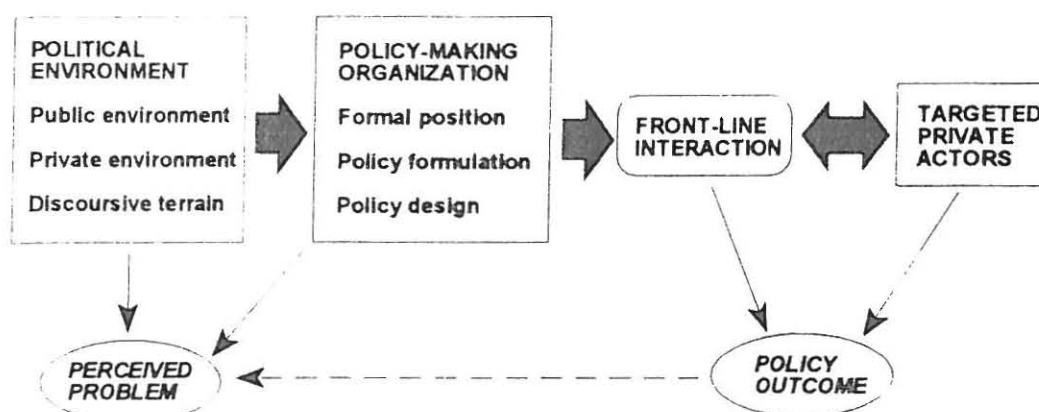


Figure 6. Organizations and the policy process - An institutional model.

policy-making process.<sup>125</sup> *Secondly*, the model includes both institutional/organizational and strategic dimensions of the policy process and should therefore be compatible with the general institutionalist framework and a strategic-relational perspective on politics. And *finally* the level of theoretical ambition is well reflected in the warning by Ham & Hill that

it is hard to go beyond the identification of the key elements which must be analysed in the study of implementation, and the recognition of the overwhelming importance of the negotiation and bargaining which occur *throughout* the policy process.<sup>126</sup>

What is being proposed is in other words a “useful heuristic map”<sup>127</sup> rather than a theory implying hypotheses about the specific nature of the relationship between different elements within the process.

Turning now to the key features of the model, it will be noted that it comprises *two tiers*: on the one hand the processes within the political sphere and its interaction with targeted private actors, and on the other hand the perceived problems and the eventual outcome of government intervention. The purpose of this is to emphasize that public policy is not just about symbolic gestures or abstract balances of power between organizations, but also somehow related to ‘real problems in the real world’, albeit in a rather tenuous way. Both *policy formulation*, determining the overall objectives, and *policy design*, the specific measures put in place to address a particular problem, are limited by the general conditions of incomplete information and transaction costs and influenced by the political, organizational and discursive setting in which it takes places.

125 The graphical representation does, however, probably come closer to a revised top-down model like the synthesis proposed by Winter (1994 pp 58ff), but the figure also draws upon Ham & Hill (1984), Hogwood & Gunn (1986), Sabatier (1993), and Jenkins (1993).

126 Ham & Hill 1984 p 112 (*italics original*).

127 Jenkins 1993 p 42.

And while policy-makers may be able to control policy *output* - money, staff or other resources committed to a particular purpose - the ultimate *outcome* of public intervention also depends on the response from the private actors targeted.<sup>128</sup> Nonetheless it must still be emphasized that the freedom of manoeuvre of a policy-making organization is *also* limited by the nature of the social relationships and material conditions that predominates in a particular field of policy - what sometimes have been called the 'problem logic'.<sup>129</sup> Many things *may* go when it comes to policy-making - but not anything.

By stressing the importance of the interaction of the policy-making organization with its political environment and the private actors targeted, the model reflects the *social embeddedness* of the policy-making process. It should, however, also be noted that no attempt is being made to specify the nature of these relationships by the introduction of e.g. a network perspective, but that the influence of particular actors must be established through concrete analysis of the resources at their disposal and the strategies employed. Policy-making organizations may find themselves more or less insulated from the pressures of organized interests, their relationship to the democratic legitimacy of party politics may be more or less distant, they may or may not find the dominant discourses conducive for their own agenda, they may or may not have access to the resources needed to influence the behaviour of the private actors targeted, and they may employ these resources in more or less effectively from a particular strategic perspective. In short, at the heart of the politics of policy-making we find relations of power.

The *design* of a particular public initiative is an aspect of policy-making that, due to its inevitably somewhat technical nature, has often been seen as a matter for detailed empirical studies rather than general theoretical consideration. I shall, however, argue that for a number of reasons policy design is significant also for the analysis of what has traditionally been seen as 'big' issues, e.g. the political aspects of the policy process. Of course the actual design may *diverge* from the officially stated objectives, if for instance the underlying agenda of the initiative has been to make a symbolic gesture rather than address a problem in an effective manner. But from a theoretical perspective the most important argument is that a policy design shapes the distinct set of *incentives* involved in a particular policy programme through features like the type of policy instrument chosen, the mode in which it is employed, the alterations aimed for in the behaviour of the target group, and the organizational set-up through which policy is to be implemented. Of course the response of private actors may also, as suggested by the bottom-up tradition,

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128 Hogwood & Gunn 1986 ch. 2.

129 Anderson (1992 pp 55ff) contrasts 'political logic' and 'problem logic' in his comparative study of responses to regional economic crisis in Germany and the UK.

be influenced by the way in which front-line staff execute the tasks assigned to them, or indeed by their interpretation of the ideological context to which a particular initiative claims, or can be claimed, to belong. But as the policy design provides the material basis for the interaction between public and private actors, analyzing the design of a policy programme must be a prerequisite to understanding the relations of power involved in policy implementation.

Underlying this line of reasoning is the assumption that the *actors targeted* by public policies are not passive victims of political and bureaucratic machinations, but must be seen as actors pursuing their own interests through strategic application of resources. This is true not only in the early phases where private actors through collective organizations and other means may influence policy formulation and design, but also applies in the subsequent implementation stage. When government policy changes their environment by introducing new rules and incentives into the game, the strategies of private actors are of course likely to be affected, but although the balance of resources between the state and the vast majority of individual private actors is heavily skewed towards the former, there are in many cases several options available to individual actors, in addition to the ever present ultimate alternative strategy of avoidance or non-compliance.<sup>130</sup> Public policies should in other words be seen as influencing rather than determining the behaviour of private actors, and again the question of power is essential for the understanding of the policy process.

All in all the introduction of an institutionalist perspective would seem to be able to produce a methodological foundation that will allow empirical analyses to reflect the often contradictory character of the policy process - and still be able to integrate insights from a wide variety of traditions in the study of politics and policy.<sup>131</sup> The synthesis is compatible with the conception of political (and economic) organizations (and institutions) and their complex interactions developed in the preceding chapter, and draws upon the diverging traditions within policy analysis. The resulting analytical perspective does not entail a more or less smooth unidirectional movement from goals to implementation or vice versa, but instead offers an approach to policy analysis in which public and private actors in different institutional positions interact on the basis of an unequal distribution of resources. It will undoubtedly generate less tidy analyses to see public policy as a political attempt to bring about changes in the behaviour of private actors by instituting new sets of incentives and thereby transform the rules of the social

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130 Cf the discussion of power and policy instruments in the following section.

131 The development of an analytical framework for the study of regional policy draws upon a wide range of specialist traditions, cf Halkier 1992 and 1996.

game. But the approach will, however, hopefully also prove to be empirically fruitful on the basis of its systematic attempt to link institutional and strategic aspects through-out the policy process, from the 'high grounds' of discourse and party politics via the 'technicalities' of policy formulation and design toward the interaction of front-line bureaucracy with private actors.

### 3. Power and Policy Instruments

The expansion of state intervention in the postwar period has not only been controversial in terms of the extent to which it was desirable or necessary, but also very much with regard to what methods public bodies should employ in order to achieve political goals. Britain in the 1980s provided a, perhaps extreme, example of this when the Conservative Thatcher government pursued a state project that in addition to rhetoric about 'rolling back the frontiers of the state' also involved a distinct preference for marketed-oriented policy instruments in the residual parts of the public sector. In this period UK regional policy moved away from its previous reliance on regulation and 'hard' resources like financial subsidies and infrastructure provision and instead enthusiastically embraced a 'softer' approach based on a plethora of public and semi-public advisory services. Allegedly the implication of this was that the capacity of the state to influence the actions of private firms was greatly diminished: regional policy was not just "at the crossroads",<sup>132</sup> but a "retreat from policy"<sup>133</sup> had virtually brought it to "the end of the line".<sup>134</sup>

The political prominence of the nature of state intervention has been reflected in political science, but like policy analysis in general, the study of policy instruments has only recently become a growth industry,<sup>135</sup> and thus it displays all the disorganized charms of an academic Klondyke. Instead of subjecting the existing literature to a systematic head-on make-my-day style criticism, the text will build on central institutionalist propositions by analyzing policy instruments from the perspective of power. If the *raison d'être* of public policy is to influence the actions of private actors in order to achieve political objectives, then a crucial element of its implementation must be a relation of power, and here the policy instruments employed could have material, as well as symbolic, importance for the public and private parties involved. Different instruments require distinct inputs on part of the state and establish different incentive structures for the private actors targeted, and thus the choice of instrument is likely to affect the extent to which the eventual policy outcome political resembles the objectives of the policy programme. The text will therefore take as its point of departure a general discussion of the concept of power, proceed to discuss existing typologies of policy instruments, and finally on the basis of this propose an alternative institutionalist approach.

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132 Albrechts *et al.* (eds.) 1989.

133 Harris 1993.

134 Cameron 1985.

135 Winter 1994 pp 36f



*Power: Institutional Dimensions*

Given the centrality of the concept of power as “one of the building blocks”<sup>136</sup> of social science in general and politics in particular, the existence of an extensive and diverse literature could be anticipated,<sup>137</sup> and even a cursory visit to a university library will confirm such expectations.<sup>138</sup> It is not the intention to provide an in-depth review of the various positions in the theoretical debate about power, but rather to reach a definition compatible with an institutionalist perspective while avoiding the most obvious weaknesses of the dominant traditions. The contributions from self-proclaimed institutionalists are, however, relatively limited,<sup>139</sup> and hence a shortcut is taken by turning to a contribution from a parallel tradition,<sup>140</sup> namely the work of Anthony Giddens.

The debate about the concept of power has been polarized between two distinct perspectives that could be called 'power over' and 'power to'. Contributions in the power-over tradition - e.g. Weber, Lukes and Habermas - construe power as something imposing limits and constraints upon private actors, a resource in its own right vested in political authorities, inherently in conflict with the autonomy of individuals and thus equated with state domination of citizens. Contrary to this, authors in the power-to tradition - e.g. Easton, Foucault and Wrong - see power as an intrinsic potential in any individual, produced in specific relations by means of strategic mobilisation of particular resources.<sup>141</sup> Giddens traces this division back to the general polarization in the social sciences between structure- and agency-oriented approaches,<sup>142</sup> and from an institutionalist perspective its consequences are certainly rather unfortunate. The fundamental problem of the power-over perspective is that it isolates power in political institutions and hence effectively marginalizes individual or collective actors from an almost Orwellian political scene. And while the power-to perspective makes up for this by establishing a close link between

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136 Hague *et al.* 1992 p 8.

137 As noted by Hodgson (1989 pp 172ff), such expectations are not always fulfilled, cf the surprising paucity of attempts to define one of the key concepts in economics, the market.

138 Extensive surveys can be found in Wrong 1979 and Lukes (ed.) 1987; Kraft & Raben 1995 is brief and lucid.

139 Power appears not to be a central concept in the work March & Olsen (Thomsen 1994 pp 16ff), and while the impact of institutions is of course crucial in the new institutional economics, power is effectively supplanted by other, parallel, concepts such as incentive structures.

140 Like was the case when the strategic-relationists were drafted in to provide input with regard to political institutions, this is a pragmatic argument and does not in any way preclude that similar results could be reached by expanding on contributions from one of the institutionalist traditions.

141 Kraft & Raben 1995 pp 5-11.

142 Giddens 1979 pp 88ff.

agency and relations of power, it is difficult to see how institutional effects - e.g. the 'hidden hand' of the market - could be accounted for in these terms because they are characterized by an absence of direct actor-to-actor relations.

The alternative conception of power developed by Giddens links power to the *effects* of both agency and social institutions upon other social phenomena. In his structuration theory the term power is associated *both* with the transformative capacity of actors, i.e. the capability "to secure outcomes where the realisation of these outcomes depends upon the agency of others",<sup>143</sup> *and* with structural domination, i.e. "reproduced relations of autonomy and dependence in social interaction".<sup>144</sup> While this may at first appear to be merely a restatement of the traditional dualism, the role of *resources* in both types of power ensures a coherent perspective because, in the words of Giddens, resources are the media through which actors exercise power, and "structures of domination involve *asymmetries of resources employed* in the sustaining of power relations."<sup>145</sup> Taking Giddens' formulations as the main source of inspiration, it should be possible to formulate a parallel position in an institutionalist idiom.<sup>146</sup> In this text power will be *defined* as

the capacity to produce effects upon a social actor, through *either* strategic employment of resources *and/or* institutionalized asymmetries in rules and distribution of resources.

Before putting this definition into perspective by comparing it briefly to existing positions in the theoretical debate, the following three points should be noted. *Firstly*, the desire to produce a comprehensive concept that highlights the shared feature - production of effects via incentive structures - has resulted in the somewhat clumsy *and/or* construction. This has, however, been difficult to avoid if a single term should be able to include both

- *agency power*, i.e. direct relations of power between actors positioned in and governed by the rules of a particular social institution, including deliberate attempts to modify or eliminate such institutions, and
- *institutional power*, i.e. effects of social institutions upon the strategies or resources of actors that have not been brought about directly by any actor.<sup>147</sup>

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143 Giddens 1979 p 93.

144 Giddens 1979 p 93.

145 Giddens 1979 p 93 (*italics original*).

146 This should not just circumvent the idiolect associated with structuration theory, but also some of the claims entailed therein that one may not wish become associated with, cf the discussion about structures and actors above.

147 This would also include the effects of institutional change brought about by 'internal trends' of development rather than the strategic behaviour of actors.

*Secondly*, power is essentially a two-way relational phenomenon.<sup>148</sup> Although the balance of power is often heavily skewed, human actors without any resources whatsoever would appear to be a rare phenomenon,<sup>149</sup> and the co-existence of several social institutions creates the possibility for path-dependent actors to attempt a change of direction, however difficult and exceptional this may be in practice.

*Thirdly*, the proposed definition of power is in line with central institutionalist tenets in that it establishes a close relationship between institutional and agency-oriented features through the insistence that institutions exercise power over actors and actors exercise power on the basis of institutionalized rules.

Compared to other attempts to come to terms with power, the first thing that should be noted is that the proposed definition transgress the power-over/to polarization through the association of power with both actors and institutions, but still seems to have avoided central problems found in the two traditions. With regard to the *power-to perspective* the proposed definition clearly covers the two first of Steven Lukes' three dimensions of power,<sup>150</sup> namely those involving more or less overt conflicts between actors over issues or potential issues. Moreover, many of the delimitation problems faced by Dennis Wrong's classical power-to distinction between (intentional) power and (unintentional) influence would seem to be avoided simply by *not* making intention a necessary condition for exercise of power.<sup>151</sup> The consequence of this is, however, not only that a notion of institutional power is made possible,<sup>152</sup> but also that side-effects, even unforeseen ones, must be interpreted as relations of power. At first glance the proposed definition would seem to have a great deal in common with formulations from the *strategic-relational tradition* where power has defined as "the production of effects within the limits set by

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148 Cf Giddens 1979 p 93.

149 A starving hermit is a possible candidate; the cultural norms governing parenthood ensures that a wean, or even an unborn child, can exercise power, albeit not necessarily intentionally.

150 The classical work is Lukes 1974; for a critical perspective, see Ham & Hill 1984 ch. 4.

151 It could perhaps be tempting to use the power/influence-pair as a more handy way of denoting 'actor power' and 'institutional power'. This would, however, entail the risk of engendering too many Wrong associations and underplay the close relationship between actors, institutions, and the two forms of power.

152 It is interesting to note that despite Wrong's principled insistence on including intentionality as the criterion that distinguishes power from influence (1979 pp 3f), his claim that

organizations may be collective or corporate actors *sui generis*, wielding and accumulating power that serves neither the goals and interests of their members, nor of a minority of organizational leaders, nor, for that matter of outside individual or groups to which the leaders are accountable (1979 p 140)

suggests that institutional power nonetheless is about to sneak in through the back door.

the 'structural constraints' confronting different agents".<sup>153</sup> Power would, however, still seem to be too closely associated with social actors like in the power-to tradition, and thus Jessop, perhaps in order to avoid a structuralist power-over perspective, in effects ends up resembling Wrong, albeit with an uneven playing field introduced. Compared to the *power-over perspective*, it should be stressed that unlike Lukes' notorious third dimension of power - the capability to neglect the 'real interests' of actors by influencing their perception of interest<sup>154</sup> - the institutionalist perspective outlined above does not entail assumptions about the interests of any actor involved in a relation of power, institutional or otherwise.<sup>155</sup> Instead a much more modest claim is made, namely that the presence of a particular social institution establishes a structure of incentives that make certain types of behaviour and strategies more likely than others.

All in all the definition of power proposed would seem to be adequate at least from as theoretical perspective, and we can therefore now turn to the real purpose of the exercise, namely the role of power at the sharp end of the process of implementing public policies.

#### *Approaches to the Study of Policy Instruments*

Within the small, but growing, literature on the means by which state bodies try to influence private actors it is possible to identify at least four different approaches to the study of policy instruments. These could be dubbed maximalist, programmist, relationalist, and resource-oriented, and as the name-calling perhaps indicates, I shall argue that the first three produce rather problematic typologies while the last one is able to provide important input to the development of an institutionalist perspective.

A *maximalist* approach to policy instruments bases its typology on differences between major social institutions - e.g. bureaucracy or market - and can often be found in the political discourse surrounding the policy process,<sup>156</sup> although it has also occurred in academic works.<sup>157</sup> The problem here is that such concepts only describe the

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153 Jessop 1982 p 253 (quoted by Thomsen 1991a p 66).

154 As noted by Giddens in a highly enjoyable polemical comment (1979 pp 90f), Lukes' third dimension is in fact not situated on the structural (institutional) level, but rather appears to be manipulative power-to writ large (cf Wrong 1979 pp 28ff).

155 The notion of objective (underlying, real) interests has long been a contentious part of the marxist tradition, and has recently been challenged vigorously by post-marxist discourse analysts (e.g. Ernesto Laclau and Chantal Mouffe) and strategic relationists (e.g. Thomsen 1991b pp 184ff).

156 See Halkier 1992 or 1996 with regard to regional policy.

157 In the somewhat uneven typology of Winter (1994 pp 36ff), 'competition' is placed alongside 'regulation', 'information' and 'subsidies', although the former describes the desired end state of relationships between  
(continued...)

*organizational context* in which a policy programme operates but do not clarify the precise nature of the interaction between public and private actors. For example, the introduction of 'market mechanisms' in the delivery of public services may bring about a move from public monopoly to heavily regulated competition between a number of private providers, but despite the liberal rhetoric about the virtues of competition the consequences of such a move for the *delivery* of these services to private clients remains uncertain.<sup>158</sup> Applying a maximalist approach may at best presents an incomplete picture of the difference between policy instruments by, at worst conflates two different levels of theoretical enquiry.

A *programmist* approach would certainly not seem to have a problem of too comprehensive analytical categories, as will be evident from the following discussion of the typology of Linder & Peters. They start out from the contention that

so much of what constitutes the reality of policy is socially and politically defined and can easily confound the objective categories imposed by an outside investigator.<sup>159</sup>

Their analysis therefore sets out to search for "the cognitive factors that shape instrument choice and appraisal" by interviewing decision-makers, and then "attempts to place those subjective factors into their proper institutional and systemic context".<sup>160</sup> This results in 1) seven classes of instruments (direct provision, subsidy, tax, contract, authority, regulation, and exhortation), 2) eight 'design criteria', ranging from complexity and visibility to precision of targeting and chances of failure, and 3) an 'ecology of contexts' that highlights features of both the organizational setting and discursive environment, including the perceived coerciveness of various instruments.<sup>161</sup> The authors point out that their "tentative enumeration" of instruments is neither necessarily "exhaustive nor mutually exclusive", and as the dividing line between subsidies/contracts and regulation/authority is more than a little unclear,<sup>162</sup> it is difficult to disagree with them.

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157 (...continued)

private actors rather than the nature of the public intervention itself. The use of the term 'competition' in connection with e.g. public tendering could of course be interpreted as a result of programmism, but when the same typology uses the term 'bureaucracy' for public provision in general, maximalism is the most reasonable depiction of this inconsistency.

158 See Lane 1995 pp 135-60.

159 Linder & Peters 1989 p 36.

160 Linder & Peters 1989 p 36.

161 Linder & Peters 1989 pp 44ff, 48ff, 54.

162 Some subsidies are clearly contracts - the state may for example pay a private actor on the condition that he undertakes a specific investment - and some contracts involve a more or less open subsidy, as seen  
(continued...)



This may not be a matter of great concern as long as the ultimate aim of the exercise is confined to mapping policy-maker discourse, but if one is interested in exploring the material aspects of the interaction between public and private organizations, a categorization of policy instruments based upon a somewhat arbitrary, or perhaps defiantly unsystematic, aggregation of policy programmes would certainly not appear to be the way forward. From such a perspective the two most valuable contributions of Linder & Peters are their insistence on the different ways in which the same policy instrument can be employed and the centrality of the question of power.

In many ways a *relationist* approach is more ambitious than the three other because its central aim is to develop a typology that specifies the relationship between different elements of the policy process. Instead of treating dimensions as independent variables in an analytical framework, the purpose is to develop hypotheses about the relationship between the various dimensions, i.e. ultimately a set of co-variables. The work of Theodore Lowi is a prominent example of an relationist approach, and his “four arenas of power” are based on the assumption that

*policies determine politics.* ... Different ways of coercing provide a set of parameters, a context, within which politics take place.<sup>163</sup>

The theoretical analysis takes its point of departure in two aspects of public coercion towards private actors.<sup>164</sup> One the one hand the likelihood of coercion varies: it is limited

		Applicability of coercion		
		individual conduct	environment	
Likelihood of coercion	remote	distributive policy	constituent policy	party interest
	immediate	regulative policy	redistributive policy	group bargaining
		decentralized local interest	centralized cosmopolitan ideology	

**Figur 7.** Lowi's four systems of policy. *Source: Lowi 1972 p 300.*

162 (...continued)

in e.g. defence procurement.

163 Lowi 1972 p 299 (italics original).

164 The classical statement is Lowi 1972, but earlier versions appear to include many of the same elements (continued...)



in the case of subsidies or public services, but has a much more immediate presence in e.g. regulation of product standards or state control of private lending. On the other hand coercion may also be applied either directly to influence the conduct of individuals, or indirectly by changing their environment. By combining these two policy dimensions Lowi arrives at four types of policy that each have their distinct political implications in terms of where and how political conflicts are likely to unfold, as illustrated by Figure 7.

It has been claimed that this approach has “more admirers than followers”<sup>165</sup> because of the difficulties in connecting different areas of public policy with the four central categories. A leading ‘follower’ has tried to address this problem by introducing “intermediate categories”,<sup>166</sup> but as this is undertaken on the basis of oblique and erratic criteria, the empirical credibility of the arenas has only been enhanced by weakening their theoretical foundation.<sup>167</sup> Moreover, from a theoretical perspective doubts must also remain about other aspects of Lowi’s approach. *Firstly*, the insistence, like in the work of Linder & Peters, on basing the analysis exclusively on the perceptions of policy-makers of the coerciveness of policy instruments excludes the potential tension between political perceptions of policy instruments and their actual degree of coerciveness from the analysis.<sup>168</sup> *Secondly*, the unidirectional nature of the causal relationship in Lowi’s scheme is questionable: it is after all not impossible to imagine that co-variance between forms of political interaction and more or less coercive types of public policy could be the result of the choices and preferences of particular political organizations. All in all the most important contribution of Lowi’s relationist approach would seem to have been to put the coercive nature of policy instruments, i.e. public exercise of power in relation to private actors, firmly on the agenda.

The so-called ‘tools approach’ of Lester M. Salamon combines elements from both the relationist and programmist approaches. His central premise has more than a faint echo of relationism:

each instrument carries with it a substantial amount of ‘bagage’ in the form of its own characteristic implementing institutions, standard operating procedures, ..., products, degree

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164 (...continued)

(see e.g. Salisbury 1968, Froman 1968, Richardson *et al.* 1982 pp 3ff, and Windhoff-Héritier 1987 pp 23ff).

165 Richardson *et al.* 1982 p 4.

166 Spitzer 1983 ch. 2.

167 The reason for this could be that Spitzer subdivides each of the four *resulting* arenas (1983 pp 29ff) rather than the two dimensions upon the basis of which the arenas were based.

168 Windhoff-Héritier 1987 p 25.

of visibility, ..., and relationship with other social forces.<sup>169</sup>

And like the programmists, Salamon employs two conceptual tiers, namely a number of tools - direct government, grants, loan guarantees, tax expenditure, social regulation and government corporation - and a number of dimensions along which these tools can be analyzed, cf the adjoining Figure 8. Again the choice of tools would seem to reflect an

DIMENSION	VARIABLES
Nature	* money payments * provision of goods/services * legal protections * restrictions/penalties
Delivery system	* direct * indirect
Centralization	degree of central decision-making
Automaticity	degree of routine/non-discretion

occupation with particular policy **Figur 8.** Salamon's dimensions of government programmes and the political situation tools. *Source: Salamon & Lund 1989 pp 34-39.*

in the US in the 1980s,<sup>170</sup> but compared

to Linder & Peters, the dimensions are given a much more prominent place in the programmatic statements.<sup>171</sup> Furthermore, the stated intention to establish relationist links between the various elements of the typology would in practice seem to have been largely forgotten in the theoretical elaborations, and thus the dimensional part of Salamon's approach clearly has a potential for providing input to the development of an institutionalist alternative.

The final approach to the study of policy instruments to be reviewed is the *resource-based* typology proposed by Christopher Hood in a slim volume entitled *The Tools of Government*.<sup>172</sup> As illustrated by Figure 9, government activities are here analyzed according to the four basic resources at the disposal of a state - nodality, treasure, authority and organization - and this produces two types of results. First and foremost a detailed analysis of a long list of tools at the disposal of government is undertaken by combining the four resources and their inherent limitations with their 'level of application': the general public, or particular groups or individuals. But at the same time more general

<sup>169</sup> Salamon 1981 p 264.

<sup>170</sup> The tools approach was originally developed as part of an analysis of 'third-party government', i.e. forms of public intervention in which e.g. hospitals, private firms, or non-federal public authorities play an important part (Salamon 1981), and was later employed on a greater scale to put the privatization policies of the Reagan government into perspective (Salamon & Lund (eds.) 1989).

<sup>171</sup> Unfortunately the use of the tools approach in a range of policy areas (Salamon & Lund (eds.) 1989) is so inconsistent that any conclusions about the empirical applicability would be premature; something that would seem to be implicitly acknowledged by Salamon in his concluding chapter (1989).

<sup>172</sup> Hood 1983.

RESOURCE	ACTIVITY	COINAGE	LIMITATION
Nodality	communication	messages	credibility
Treasure	exchange	moneys	fungibility (free exchange)
Authority	determine	tokens of authority	standing (legal)
Organization	act directly	treatments	capacity (physical)

**Figur 9.** Hood's four basic resources of government. *Source: Hood 1983 pp 3f.*

conclusions are also reached through a discussion of the consequences for public and private actors of employing particular resources. Hood distinguishes between the economy of intervention from the perspective of the state, i.e whether a type of resource is automatically depleted by deployment or not, and the 'economy' of intervention from the perspective of private actors, i.e the degree of external constraint involved. This results in the cross-tabulation that can seen in Figure 10; and leads to the conclusion that 'economizing' with government intervention involves complicated trade-offs, especially if economy of constraint is interpreted in the wider sense of hitting only the relevant private actors, using the minimum force required, and still intervening in a way that ensures that the desired change of behaviour will occur.<sup>173</sup>

A noticeable advantage of a resource-based approach is that its primary typology conceptualizes a central aspect of the direct interaction between the state and private actors. Hood is certainly not the only writer for

		DEPLETABILITY	
		contingent	immanent
CON- STRAINT	low	nodality	treasure
	high	authority	organization

whom the nature of the resources employed by government is an important variable, but his typology still appears to

be the one in which resources are applied as criteria for categorization in the most consistent manner.<sup>174</sup> The attention given to the importance of the more or less selective

<sup>173</sup> Hood uses the concepts directness (hitting the target and no-one else), scalability (avoiding draconian overkill), and non-substitutability (limit possibility of avoidance or deflection of effects (1983 pp 145ff). The book in general, and this section in particular, clearly demonstrates that the grand old man of the "perfect administration" tradition is keenly aware of the obstacles to anything akin to the realization of this ideal-type model of the policy process.

<sup>174</sup> As can be seen from Figure 8, Salamon's tools approach subdivides authority by introducing additional criteria concerning the way in which this resource is employed, and combines nodality with organization (continued...)

targeting of government intervention would also seem to be well-worth bringing forward, as is the insistence on the varying depletable of various types of resources. The major weakness of Hood's approach can be said to be the introduction of a once-and-for-all hierarchy of the constraint on private actors involved in using the various types of resources as policy instruments.<sup>175</sup> As constraint involves a relation of power, it is vital to take into account both the resources of the targeted actors and the way in which government itself employs the resources at its disposal, and thus maintaining a fixed hierarchy of constraint would be highly misleading. This should, however, not prevent us from transposing the core ideas of the resource-oriented approach to an institutionalist framework, and this is the task to which we now can turn.

### *Policy Instruments - An Institutional Perspective*

By bringing together the concept of power and typologies of policy instruments discussed above, it should now be possible to develop an institutional approach to the interaction between public and private organizations in the implementation phase of the policy process.

The whole point about public policy is to influence private actors so that their behaviour comply with public political objectives, and it is therefore reasonable to analyse the interaction between public and private actors as a relation of power. From this perspective policy instruments are the levers of power employed by public organizations to produce effects that will take the external world towards a politically defined desirable state. As we have already defined (actor) power as strategic employment of resources, an analysis of policy instruments will have to take into account *both* the nature of the resources involved *and* the rules governing their use, and while some of the approaches discussed above actually do include elements from both these perspectives,<sup>176</sup> by far the most consistent attempt to integrate rules and resources into a unified framework can be

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174 (...continued)

in a direct-provision category along the same lines. The use of such additional criteria can also be seen in the typology of Windhoff-Héritier, cf the discussion below.

175 Again Hood is not alone in trying to establish such a hierarchy of constraint amongst policy instruments as Doern & Phidd arrange the instruments of governing, "albeit somewhat artificially, along a continuum starting with minor or almost non-existent coercion and extending to maximum coercion" (1983 p 111). This produces the following sequence (1983 pp 111ff): self-regulation, exhortation, expenditure, regulation (including taxation), and public ownership - and is open to the same criticism as Hood's less linear scheme.

176 Hood and Salamon are the two most obvious examples.

<b>Authority</b>	Legal and/or legitimate position to demand, forbid etc.
<b>Information</b>	Capacity to mobilize and process cognitive data
<b>Finance</b>	Stocks of moneys or other means of general exchange
<b>Organization</b>	The physical ability to act directly in a coordinated manner

**Figur 11.** Policy resources.

found in the work of Adrienne Windhoff-Héritier.<sup>177</sup> Insisting on the importance of both *Steurungsprinzipien* and *Beschaffenheit*, she develops a two-dimensional perspective on policy instruments, and although the actual conceptualization is not beyond amendment,<sup>178</sup> her example is certainly encouraging from an institutionalist perspective.

Concerning *resources*, the systematic nature of Christopher Hood's typology has already been noted. Neither resource-based studies of power in general<sup>179</sup> nor the work of Windhoff-Héritier<sup>180</sup> would seem to offer a significantly better starting point, and thus this text will adopt a slightly modified version of the Hood scheme. As can be seen by comparing Figure 11 with Figure 9 above, two terms have been changed: information and finance have supplanted the more arcane expressions of nodality and treasure. More significantly, however, three of Hood's definitions have also been adjusted. Authority has lost its exclusively legal nature, thereby bringing it into line with the less formal

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177 Windhoff-Héritier 1987.

178 Cf the discussion below.

179 Wrong (1979 pp 125) considers the typologies of Amitai Etzioni and William Gamson two of the most influential attempts to develop a resource-based analysis of power. The former distinguishes between "coercive, utilitarian and normative assets, corresponding, respectively, to instruments of force, material rewards such as goods and services, and symbols of legitimacy, prestige or love", while Gamson differentiates between "constraint, inducement and persuasion resources". Although essentially covering the same types of resources, Etzioni's slightly different grouping - Hood's treasure and nodality categories are collapsed into one - would not seem to be an advantage from a policy-instrument perspective. Similarly, while Gamson may belong to a tradition that sees organization not as a resource in its own right but as derived from the three others (cf Hood 1983 p 72), its physical and collective nature would still seem to warrant a separate analytical category. Similar arguments also applies to Boulding's "three faces of power" (1989) in which resource- and rule-based criteria blend uneasily in his distinction between "the stick" (the use of force), "the deal", and "the kiss" (to create obligations) (see Hague *et al.* 1992 pp 10f).

180 Windhoff-Héritier's *Beschaffenheit* typology distinguishes between the following categories of resources (1987 pp 35-41): material (financial, infrastructure and in-kind), services (communicative and physical), and regulation. Again the four Hoodian resources would seem to be covered, but the rationale for the regrouping would seem to suggest a change of perspective from Hood's top-down approach to a more client-oriented perspective that would perhaps be more suitable in an avowedly bottom-up environment.



institutionalist approach to power and political institutions.<sup>181</sup> The collective nature of organization has been emphasized by stressing co-ordination in order to set it apart from the three other types of resources,<sup>182</sup> and the organizational connotations of the term 'nodality' have disappeared with the term itself.<sup>183</sup>

While society-wide authority is the type of resource that sets the state apart from all other organizations, and one that arguably functions as the ex- or implicit foundation for the use of the other three types of resources,<sup>184</sup> it is difficult to envisage a modern state intervening solely by means of authority, simply because the transaction costs involved in devising and policing detailed rules about everything will be prohibitive.<sup>185</sup> At the same time it is also worth stressing that Figure 11 should not be construed as a fixed hierarchy of constraints because policy instruments are of a relational nature. Information, often decried as one of the least potent resources at the disposal of the state,<sup>186</sup> could for example bring about large-scale or in-depth change if applied in a strategic manner<sup>187</sup> because the effects of a particular policy instruments depends not only on the type of resource employed, but *also* on the position of the private actors targeted *and* on the way in which resources are employed.<sup>188</sup>

With regard to the latter I propose a two-tier analytical scheme, distinguishing between on the one hand the basic rules under which the interaction between public and private actors take place, and on the other hand the specific modes of this interaction. Turning first to the basic *rules of interaction*, the concepts summarized in Figure 12 can be said to be inspired by Windhoff-Héritier, although her contribution has been reworked and expanded upon. Alterations include adoption of concepts with a more, for want of a better word, legal ambience, a regrouping of concepts in order to remove subdivisions that

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181 See Wrong 1979 ch. 3, cf the discussion above.

182 Cf the discussion of collective and individual resources in Wrong 1979 ch. 6.

183 For Hood nodality "denotes the property of being in the middle of an information or social network" (1983 p 4) and thereby in fact introduces an additional organizational criteria in his otherwise resource-oriented typology.

184 Cf the discussion above of the state as a political institution.

185 Hood's entertaining exploration of the difficulties faced by an imaginary government wanting to promote vegetarianism provides an excellent illustration of this (1983 pp 149ff).

186 See e.g. Doern & Phidd 1983 p 111.

187 An example of the former could be government safety drives in relation to the use fireworks. Examples of the latter could be government advisory services providing market intelligence for small firms in a particular industry.

188 This argument does of course in no way preclude that certain resources are *perceived* to be more powerful than others within a particular political discourse, but this is a matter for historical analysis and does not affect the theoretical argument.



<b>Violation</b>	Arbitrary infringement
<b>Regulation</b>	Rules governing behaviour
<b>Conditional</b>	Resources transferred if private actor agrees terms
<b>Unconditional</b>	Resources made freely available

**Figur 12.** Rules of interaction.

would appear to reflect resource- rather than rules-oriented criteria,<sup>189</sup> and inclusion of the violation category to cover instances in which the state actions transgresses its legal and/or legitimate remit. No particular category has been included to cover constitutional or organisational change<sup>190</sup> as this type of changes can be accounted for by combining regulatory rules and organizational resources. It must be emphasized that contrary to the resource perspective, there is clearly a 'hierarchy of constraint' in the basic rules governing the interaction between the state and private actors. Once regulations have been instituted they can effectively be *imposed* upon individual citizens and organizations, and attempts to avoid them will normally carry legal sanctions. In the case of a conditional relationship private actors can *choose* either to accept or decline the terms on offer, and although policy programmes may have been designed with a view to a balance of resource that should propel private actors to accept what could perhaps be seen as unfavourable terms, the option of avoiding commitment does not bring about any legal consequences whatsoever. In the case of unconditional forms of interaction, no strings are attached to the resources offered by the state to private actors, although the nature of these resources will of course often in practice limit their possible application and thereby stimulate particular patterns of behaviour.

A particular policy programme may draw simultaneously on several rules of interaction and more than one type of resources, resulting in a massive number of

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189 Both of Windhoff-Héritier's concepts *Angebot* and *Überzeugung/Aufklärung* refer to unconditional transfer of resources, and the distinction between them would seem to draw on the basis of the resources involved (finance/infrastructure versus information) rather than the rules governing their employment. Similar reasons appear to have prompted the distinction between *Überzeugung/Aufklärung* and *Steuerung durch Vorbild* where in the latter case the state promotes best-practice on the back of its own activities (e.g. by taking the needs of wheelchair users into account in building design), because the only difference between the two is the role of organizational resources in the latter.

190 Such categories can be found in the typologies of MacRae (1980) and Elmore (1987).

	Authority	Information	Finance	Organization
<b>Regulation</b>	safety standards	primary education	taxation	policing
<b>Contractual</b>	permits	further education	industrial subsidies	public transport
<b>Voluntary</b>	summer time	consumer advice	social security	roads

**Figur 13.** Rules, resources and policy instruments - examples.

potential combinations,<sup>191</sup> but even if we define a policy instrument as a specific combination of one rule and one type of resource and disregard systematic violation, a simple cross-tabulation produces 12 possible generic instruments. In Figure 13 a range of arbitrary examples have been distributed according to the rules and resources on the basis of which they operate,<sup>192</sup> and this exercise will hopefully demonstrate the *relevance* as well as the *limitations* in using the two dimensions as means of discriminating between public activities. The empirical relevance is suggested by the fact that 12 examples can be found without resorting to obscure state activities,<sup>193</sup> and thus it would seem to be worth-while to try out this approach on a greater scale. At the same time it is, however, also evident that the scope for variation in these activities still is considerable. This can of course partly be traced back to differences in objectives, funding or organizational set-up, but I shall argue that an additional, and often overlooked, source of diversity is the way in which identical policy instruments are being employed.

Taking this into account requires the introduction of a third analytical dimension, or rather a set of dimensions, which could be termed *modes of implementation*<sup>194</sup> and covers specific designs with regard to rules and resources that could affect the degree to which public priorities will affect the behaviour of private actors. Obviously the existing literature, and indeed the discussion in the preceding pages, has pointed to a number of design features that could form part of a mode of implementation analysis,<sup>195</sup> e.g.

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191 If any combination of rules can be used with any combination of resources, the precise figure is 225, although some of these remain speculative.

192 For the sake of the argument, the classification of the various policy area has been undertaken with the classical Western European welfare state in mind.

193 With the possible exception of the voluntary-authority example.

194 One or more aspects of this third dimension can be found in a good number of works on policy analysis and instruments, but the author assumes full responsibility for grouping them together in what at the present stage might well be described as a residual dimensional with a vapid heading.

195 See e.g. Hood 1983, Salamon & Lund 1989, Linder & Peters 1989, and Halkier & Danson 1995a and 1995b.

- the selectiveness of targeting
- the tailored or standardized nature of the interaction
- the programmatic or one-off nature of intervention
- the proactive or reactive role of public organizations in individual cases
- the degree of discretion vested in the front-line bureaucracy
- the political visibility of particular measures

One may speculate about the possibility of identifying a core of 'universal modes', but at least some of these features are likely to be closely linked to the characteristics of particular policy areas. As the idea of grouping these variables together has not been explored in a systematic manner before,<sup>196</sup> it would probably be better to undertake a first exploration in the context of a specific policy area rather than start out by pretending to provide an exhaustive encyclopedia of the modes of the world. A systematic discussion of modes of implementation will therefore not take place here, but instead form part of the general task of establishing an analytical framework for the study of the politics of regional policy.<sup>197</sup> Meanwhile, the points suggested above must serve as a sneak preview of what could be entailed in developing modes of implementation as an analytical category.

All in all it is clear that the discussion of power and policy instruments would have been fruitful. Having defined (actor) power as strategic employment of resources greatly facilitated the attempt to make sense of the rather uneven literature on policy instruments and proved to be a precondition for the attempt to develop a 2+-dimensional perspective in which public interventions vis-à-vis private actors are to be assessed not only according to the rules and resources involved but also with regard to more specific design features. Or to put it another way: innovation with regard to the analysis of policy instrument turned out to depend on taking the wider theoretical contexts - institutions, agency and power - into account in a systematic fashion.

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<sup>196</sup> Both Hood and Salamon tend to enumerate variables without fitting them into an overall perspective of power, rules and resources.

<sup>197</sup> See Halkier 1996.

#### 4. Premonitions (No Mean Conclusion)

As announced in the introduction, this paper consisted of three separate, yet related, parts the function of which were to provide theoretical underpinning for the development of an analytical framework for empirical investigations. Although the *raison d'être* of the text is therefore in a sense external, the preceding sections could also be seen to be valuable in their own right. On the one hand an institutionalist perspective has been restated, hopefully in a more precise manner, with regard to economic and political phenomena and the policy process. On the other hand the results of these discussions ultimately made it possible to break new theoretical ground in the analysis of policy instruments and their relationship to rules, resources and relations of power between public and private actors, something that potentially could have significant implications for the study of other areas of policy too.

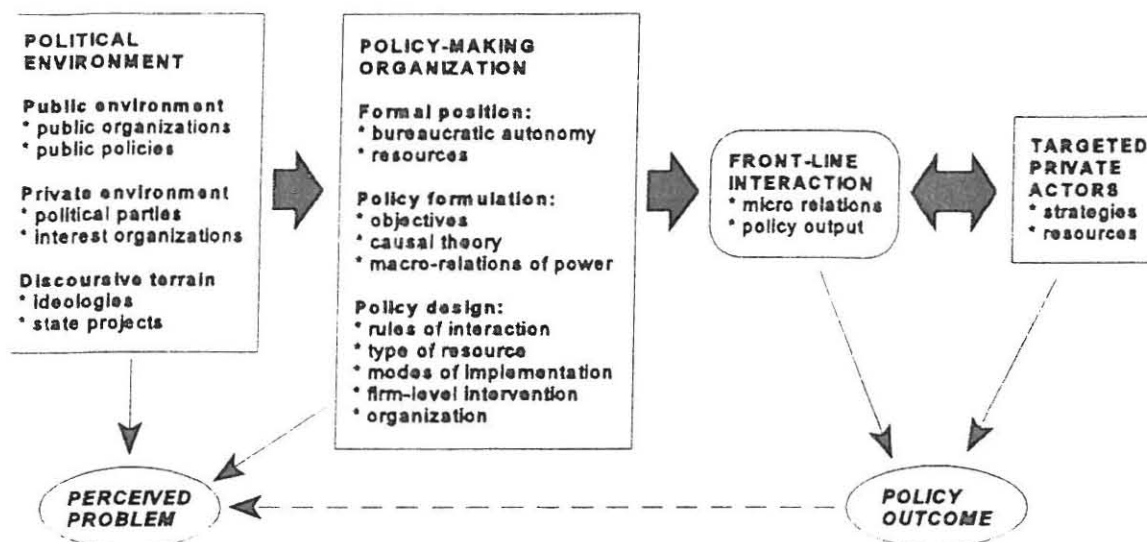
Having worked our way through successive areas of theoretical enquiry, it is now time to return to the concerns that originally prompted the venture by considering the implications for the study of regional policy in general, and the transition from traditional towards new-model policies in particular.

*Firstly*, the contours of an institutionalist perspective on regional policy begins to emerge when the insights into economic and political institutions gained in section 1 are combined with the general approach to policy analysis developed in section 2 and conceptual work undertaken earlier in course of the project.<sup>198</sup> Figure 14 depicts the basic structure of such an analytical framework, and it will be noted that a range of by now well-known concerns are very much in evidence:

- the combination of organizational and strategic features,
- the interplay between the political process and the problems of the regional economy, both in the formulation and design of policies, and in the implementation phase through the interaction between frontline bureaucrats and targeted private actors,
- the social embeddedness of the policy-making process through the relationship between the policy-making organization, its political environment and the private actors targeted by policy initiatives,
- the influence of design variables such as rules of interaction, types of resources and modes of implementation on the degree to which the outcomes produced by a

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198 Notably Halkier 1992.



Figur 14. Regional policy - An institutionalist perspective.

particular policy programme reflect the original political priorities, and

- the relational nature of policy implementation where the final outcome not only reflects the nature of state intervention but also the resources, interests, strategies and ideological inclinations of the private actors targeted

are all very much present. Having established the foundations for an analytical framework should greatly facilitate the pending conceptual work concerning individual variables by serving as an overarching principle of organization and making it easier to draw lessons from the existing, and very heterogenous, literature on regional policy.

*Secondly*, what may have felt like a long and winding road has not merely been yet another rehearsal of well-worn theoretical arguments, but has resulted in a tangible improvement upon previous attempts to construct an analytical framework,<sup>199</sup> especially with regard to three areas: the role of transaction costs in the process of policy formulation, the question of power and policy instruments, and the interaction between the implementing organization and targeted private actors. Or to put it another way: things are not what they used to be, they have improved.

The adoption of an institutionalist approach has in other words clearly made it possible to impose a coherent perspective that *both* takes strategic agency and institutional/organizational factors into account, *and* is well-equipped to illuminate the distinct characteristics of and complex interaction between public and private organizations. All in all this strongly suggests that the next step, the development of a

199 Something that can easily be established by comparing the comments above with the framework described in Halkier 1992.

consistent analytical framework specially geared to regional policy should be feasible - and so the ultimate aim, to be able to make sense of the changing policy paradigms, is therefore still very much in sight. In other words: a promising platform would seem to have been created.



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